

In the opinion of Hawkins Delafield & Wood LLP, Bond Counsel, under existing statutes and court decisions, and assuming the accuracy of certain representations and continuing compliance with certain covenants: (i) interest on the Senior Series 2006A-1 Bonds and the Subordinate Series 2006B-1 Bonds is excluded from gross income for federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"); (ii) interest on the Senior Series 2006A-1 Bonds and the Subordinate Series 2006B-1 Bonds, however, is treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; and (iii) interest on the Senior Series 2006A-2 Bonds, the Senior Series 2006A-3 Bonds, the Senior Series 2006A-4 Bonds and the Senior Series 2006A-5 Bonds is included in gross income for federal income tax purposes pursuant to the Code. In addition, in the opinion of Bond Counsel, under existing statutes, the 2006 Bonds and the income thereon and the transfer thereof, including any profit made on the sale thereof, shall at all times be exempt from taxation or assessment of any type by the Commonwealth of Kentucky, its agencies and departments and by all political subdivisions within the Commonwealth of Kentucky. See "Tax Matters" herein.

NEW ISSUE - Book-Entry Only



\$350,000,000
Kentucky Higher Education
Student Loan Corporation
Student Loan Revenue Bonds

\$28,175,000 Senior Series 2006A-1
(Tax-Exempt Auction Rate Certificates)

\$42,825,000 Senior Series 2006A-2
(Taxable Auction Rate Certificates)

\$100,000,000 Senior Series 2006A-3
(Taxable Auction Rate Certificates)

\$60,000,000 Senior Series 2006A-4
(Taxable Auction Rate Certificates)

\$90,000,000 Senior Series 2006A-5
(Taxable Auction Rate Certificates)

\$29,000,000 Subordinate Series 2006B-1
(Tax-Exempt Auction Rate Certificates)

Dated: Date of Delivery

Price: 100%

Due: June 1, 2036

The Senior Series 2006A-1 Bonds, the Senior Series 2006A-2 Bonds, the Senior Series 2006A-3 Bonds, the Senior Series 2006A-4 Bonds, the Senior Series 2006A-5 Bonds (collectively, the "Series 2006A Bonds") and the Subordinate Series 2006B-1 Bonds (the "Series 2006B-1 Bonds") and collectively with the Series 2006A Bonds, the "2006 Bonds") will be issued as Auction Rate Certificates - ARCs® ("ARCs"). The 2006 Bonds are being issued by the Kentucky Higher Education Student Loan Corporation (the "Corporation"), an independent de jure municipal corporation and political subdivision of the Commonwealth of Kentucky (the "Commonwealth"), pursuant to the provisions of the Indenture of Trust, dated as of August 1, 2004 (the "Original Indenture"), and the Fifth Supplemental Indenture of Trust, dated as of August 1, 2006 (the "Fifth Supplemental Indenture" and collectively with the Original Indenture, as previously supplemented, the "Indenture"), each between the Corporation and Wells Fargo Bank, N.A., as trustee (the "Trustee"). The 2006 Bonds are issuable in fully-registered form and when issued shall be registered in the name of Cede & Co. as nominee for The Depository Trust Company, New York, New York ("DTC"), which shall act as securities depository for the 2006 Bonds. Purchasers of the 2006 Bonds will not receive certificates representing their beneficial ownership interests in the 2006 Bonds. Purchases and sales by the beneficial owners of the 2006 Bonds shall be made in book-entry form. See "BOOK-ENTRY SYSTEM" herein.

Payments of principal, redemption price, and interest with respect to the 2006 Bonds are to be made directly to DTC by the Trustee or its successor, so long as DTC or Cede & Co. is the registered owner of the 2006 Bonds. Disbursements of such payments to DTC Participants (as defined herein) are the responsibility of DTC and the disbursements of such payments to the beneficial owners are the responsibility of DTC Participants as more fully described herein. Interest on the 2006 Bonds is payable as described herein until maturity or earlier redemption. The Applicable ARCs Rate or Auction Rate, as applicable, and Auction Periods shall be established from time to time pursuant to the Auction Procedures described herein. The Series 2006A Bonds are equal in right of payment to all Senior Obligations outstanding from time to time and are prior in right of payment under the Indenture to all Subordinate Obligations outstanding from time to time, including the Series 2006B-1 Bonds. The Series 2006B-1 Bonds are subordinate in right of payment to all Senior Obligations outstanding from time to time, including the Series 2006A Bonds and are senior in right of payment to any Junior Subordinate Obligations that may be outstanding from time to time. The 2006 Bonds are subject to redemption, acceleration and, with respect to the Senior Series 2006A-1 Bonds and the Series 2006B-1 Bonds, mandatory tender as described herein.

The 2006 Bonds are being issued for the purposes of (i) financing the origination and acquisition of Eligible Loans, (ii) making a deposit to the Debt Service Reserve Fund, and (iii) paying the costs associated with the issuance of the 2006 Bonds.

THE 2006 BONDS ARE SPECIAL AND LIMITED OBLIGATIONS OF THE CORPORATION, SECURED BY AND PAYABLE FROM SPECIFIC REVENUES, FUNDS AND OTHER ASSETS PLEDGED THEREFOR AS HEREIN DESCRIBED. THE 2006 BONDS DO NOT CONSTITUTE A DEBT, LIABILITY OR OBLIGATION OF THE COMMONWEALTH OR ANY POLITICAL SUBDIVISION THEREOF. THE PAYMENT OF THE PRINCIPAL OF AND INTEREST ON THE 2006 BONDS IS NOT SECURED BY A PLEDGE OF THE FAITH AND CREDIT OR THE TAXING POWER OF THE COMMONWEALTH OR ANY POLITICAL SUBDIVISION THEREOF. KENTUCKY'S NAME IS ON THE 2006 BONDS FOR THE BENEFIT AND CONVENIENCE OF OTHER ENTITIES IN THE COMMONWEALTH. HOWEVER, THE ONLY SECURITY WHICH IS PLEDGED FOR THE 2006 BONDS IS THE INDEPENDENT REVENUES AND ASSETS FROM THE PROJECT. THE GENERAL ASSEMBLY DOES NOT INTEND TO APPROPRIATE ANY COMMONWEALTH FUNDS TO FULFILL THE FINANCED OBLIGATION REPRESENTED BY THE 2006 BONDS. THE CORPORATION HAS NO TAXING POWER.

PAYMENT OF PRINCIPAL AND INTEREST ON THE 2006 BONDS IS NOT INSURED OR GUARANTEED BY ANY GOVERNMENT AGENCY OR INSTRUMENTALITY, BY ANY INSURANCE COMPANY OR BY ANY OTHER PERSON OR ENTITY.

The 2006 Bonds are offered when, as and if received by the Underwriter, subject to prior sale, to withdrawal or modification of the offer without notice and to the approval of legality by Hawkins Delafield & Wood LLP, Bond Counsel. Certain legal matters in connection with the 2006 Bonds will be passed upon for the Corporation by its General Counsel and the Underwriter by its counsel, Krieg DeVault LLP. The 2006 Bonds are expected to be available for delivery in New York, New York through the facilities of DTC as described in "INTRODUCTION - Delivery" herein.

UBS Investment Bank

Dated: August 7, 2006

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The information set forth herein has been obtained from the Corporation, the Kentucky Higher Education Assistance Authority ("KHEAA") and other sources that are believed to be reliable, but is not guaranteed as to accuracy or completeness, and is not to be construed as a representation, by the Underwriter. The information and expressions of opinion contained herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Corporation or KHEAA or that the information or opinions or estimates contained herein are correct as of any date subsequent to the date hereof. Based upon facts known to the Corporation as of the date hereof, the Corporation does not currently expect to supplement this Official Statement prior to the final Date of Issuance of the 2006 Bonds. The Corporation reserves the right, however, to supplement this Official Statement prior to, in connection with or subsequent to any such Date of Issuance to reflect changes in the Federal Family Education Loan Program, in the assets held in the Trust Estate or in other factors that the Corporation considers material to the 2006 Bonds. See "CONTINUING DISCLOSURE" and "APPENDIX A – SUMMARY OF CERTAIN PROVISIONS OF THE FEDERAL FAMILY EDUCATION LOAN PROGRAM – Legislative and Administrative Matters."

This Official Statement contains statements which, to the extent they are not recitations of historical fact, constitute "forward-looking statements." In this respect, the words "estimate," "project," "anticipate," "expect," "intend," "believe" and similar expressions are intended to identify forward-looking statements.

No dealer, broker, salesman or other person has been authorized by the Corporation, KHEAA or the Underwriter to give any information or to make any representations with respect to the 2006 Bonds, other than those contained herein, and if given or made, such other information or representations must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the 2006 Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE 2006 BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

IN MAKING AN INVESTMENT DECISION, INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE CORPORATION AND THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. THE 2006 BONDS HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS OFFICIAL STATEMENT.

THE UNDERWRITER HAS ADVISED THE CORPORATION THAT IT INTENDS INITIALLY TO MAKE A MARKET FOR THE 2006 BONDS BETWEEN AUCTIONS; HOWEVER, THE UNDERWRITER IS NOT OBLIGATED TO MAKE SUCH MARKET AND NO ASSURANCE CAN BE GIVEN THAT A SECONDARY MARKET FOR THE 2006 BONDS WILL DEVELOP.

THIS OFFICIAL STATEMENT CONTAINS SUMMARIES BELIEVED TO BE ACCURATE OF CERTAIN DOCUMENTS, BUT REFERENCE IS HEREBY MADE TO THE ACTUAL DOCUMENTS, WHICH ARE INCORPORATED BY REFERENCE, AND ALL SUCH SUMMARIES ARE QUALIFIED IN THEIR ENTIRETY BY THIS REFERENCE. THIS OFFICIAL STATEMENT DOES NOT CONSTITUTE A CONTRACT BETWEEN THE CORPORATION OR THE UNDERWRITER AND ANY ONE OR MORE OF THE PURCHASERS OR OWNERS OF THE 2006 BONDS.

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SUMMARY STATEMENT

This Summary Statement, being part of the Official Statement, is subject in all respects to more complete information contained herein. The offering of the 2006 Bonds to potential investors is made only by means of this entire Official Statement. No person is authorized to detach this Summary Statement from this Official Statement or to otherwise use it without this entire Official Statement. All terms used in this Summary Statement and not otherwise defined herein shall have the meanings specified in Appendix B, Appendix F or Appendix H.

The Issuer

Kentucky Higher Education Student Loan Corporation (the "Corporation") is an independent *de jure* municipal corporation and political subdivision of the Commonwealth of Kentucky (the "Commonwealth"). See "THE CORPORATION". The Corporation's services and loans are marketed under the registered service mark "The Student Loan People.SM

The Offering

The Corporation is offering hereby its Student Loan Revenue Bonds consisting of \$28,175,000 aggregate principal amount of Senior Series 2006A-1 Bonds (the "Series 2006A-1 Bonds"), \$42,825,000 aggregate principal amount of Senior Series 2006A-2 Bonds (the "Series 2006A-2 Bonds"), \$100,000,000 aggregate principal amount of Senior Series 2006A-3 Bonds (the "Series 2006A-3 Bonds"), \$60,000,000 aggregate principal amount of Senior Series 2006A-4 Bonds (the "Series 2006A-4 Bonds"), \$90,000,000 aggregate principal amount of Senior Series 2006A-5 Bonds (the "Series 2006A-5 Bonds" and collectively with the Series 2006A-1 Bonds, the Series 2006A-2 Bonds, the Series 2006A-3 Bonds and the Series 2006A-4 Bonds, the "Series 2006A Bonds") and \$29,000,000 aggregate principal amount of Subordinate Series 2006B-1 Bonds (the "Series 2006B-1 Bonds" and collectively with the Series 2006A Bonds, the "2006 Bonds"). The 2006 Bonds mature on June 1, 2036 and bear interest pursuant to the Auction Procedures described herein. The term "Bonds" as used herein shall refer to the 2006 Bonds, the Existing Bonds (as defined below) and any Additional Bonds issued under the Indenture in the future.

Redemption

The 2006 Bonds are subject to redemption prior to maturity at the option of the Corporation, as described herein. The 2006 Bonds are also subject to extraordinary mandatory redemption under certain specified circumstances as described herein. See "DESCRIPTION OF THE 2006 BONDS – Redemption Provisions."

Priority

The Indenture authorizes the issuance of Senior Obligations, Subordinate Obligations, and Junior Subordinate Obligations. See APPENDIX B – "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE." The Corporation presently has outstanding \$750,000,000 of Student Loan Revenue Bonds under the Indenture (the "Existing Bonds"), of which \$719,000,000 constitute Senior Bonds (the "Existing Senior Bonds") and \$31,000,000 constitute Subordinate Bonds (the "Existing Subordinate Bonds"). The Existing Senior Bonds, the Series 2006A Bonds and any Additional Bonds issued as Senior Bonds constitute Senior Obligations, and the rights of the owners of the Existing Senior Bonds, the Series 2006A Bonds and all other Senior Obligations are superior in priority of claim as to payment to such rights of the owners of any Subordinate Obligations or Junior-Subordinate Obligations, if any. The Existing Subordinate Bonds, the Series 2006B-1 Bonds and any Additional Bonds issued as Subordinate Bonds constitute Subordinate Obligations and the rights of the owners of the Existing Subordinate Bonds, the Series 2006B-1 Bonds and all other Subordinate Obligations, if any, are inferior in priority of claim as to payment to such rights of the owners of the Existing Senior Bonds, the Series 2006A Bonds and all other Senior Obligations, if any, and are superior in priority of claim as to payment to such rights of the owners of Junior-Subordinate Obligations, if any. No Junior-Subordinate Obligations are presently outstanding. Junior-Subordinate Obligations issued in the future, if any, will be inferior in priority of claim as to payment to all

Senior Obligations and Subordinate Obligations. Failure of the Corporation to pay principal of or interest on the Series 2006B-1 Bonds or any other Subordinate Obligations or Junior-Subordinate Obligations shall not be an Event of Default under the Indenture if any Senior Obligations are Outstanding. Additional Bonds secured by the Trust Estate may also be issued under the Indenture if each Rating Agency confirms that the issuance of the Additional Bonds will not cause such Rating Agency to withdraw or downgrade the rating on any Bonds.

Purpose of Issuance

The 2006 Bonds are being issued for the purposes of (i) financing the origination and acquisition of Eligible Loans, (ii) making a deposit to the Debt Service Reserve Fund, and (iii) paying the costs associated with the issuance of the 2006 Bonds. See "SOURCES AND USES OF FUNDS."

The 2006 Bonds

While outstanding as Auction Rate Certificates ("ARCs"), the 2006 Bonds will be issued in denominations of \$25,000 or any integral multiple thereof and will mature on June 1, 2036. The 2006 Bonds will bear interest at the rates established from time to time as set forth herein.

The Series 2006A-1 Bonds and the Series 2006B-1 Bonds (the "Series 2006 Tax-Exempt Bonds") will be issued as Tax-Exempt ARCs. The Series 2006A-2 Bonds, the Series 2006A-3 Bonds, the Series 2006A-4 Bonds and the Series 2006A-5 Bonds (the "Series 2006 Taxable Bonds") will be issued as Taxable ARCs.

This Official Statement, in general, describes the Series 2006 Tax-Exempt Bonds only during the period in which the Series 2006 Tax-Exempt Bonds bear interest as Tax-Exempt ARCs, which is the period beginning on the Date of Issuance of the Series 2006 Tax-Exempt Bonds and ending, with respect to any Series 2006 Tax-Exempt Bond that is subject to conversion, on the conversion of such Series 2006 Tax-Exempt Bonds to a different interest accrual basis. Certain statements contained herein address only the Series 2006 Tax-Exempt Bonds or only the Series 2006 Taxable Bonds.

Interest Payments

Interest on the Series 2006 Tax-Exempt Bonds while outstanding as Tax-Exempt ARCs, prior to a change in the Interest Payment Dates as described herein, is payable semiannually on each June 1 and December 1 until maturity or earlier redemption, commencing December 1, 2006. See "TAX-EXEMPT AUCTION RATE CERTIFICATES – Interest." The Auction Periods and Interest Payment Dates for the Series 2006 Tax-Exempt Bonds are subject to change, as described herein. See "TAX-EXEMPT AUCTION RATE CERTIFICATES – Changes in Tax-Exempt ARC Auction Periods or Tax-Exempt ARC Auction Date and Changes to and from BMA Auction Mode."

Interest on the Series 2006A-2 Bonds while outstanding as Taxable ARCs, prior to a change in the Interest Payment Dates as described herein, is payable on September 14, 2006 and thereafter on the day following each Interest Period (defined herein), until maturity or earlier redemption. Interest on the Series 2006A-3 Bonds, the Series 2006A-4 Bonds and the Series 2006A-5 Bonds (collectively, the "2006 Additional Bonds"), prior to a change in the Interest Payment Dates as described herein, will be payable on the dates set forth in the Corporation Issuance Orders executed and delivered in connection with the issuance of such Bonds and thereafter on the day following each Interest Period (defined herein) until maturity or earlier redemption. See "TAXABLE AUCTION RATE CERTIFICATES – Interest." The Auction Periods and Interest Payment Dates for the Series 2006 Taxable Bonds are subject to change, as described herein. See "TAXABLE AUCTION RATE CERTIFICATES – Changes in Taxable ARC Auction Periods or Taxable ARC Auction Date."

Delivery	The Series 2006A-1 Bonds, the Series 2006A-2 Bonds and the Series 2006B-1 Bonds are expected to be issued and delivered on or about August 17, 2006. The Series 2006A-3 Bonds will not be issued and delivered at that time, but rather are expected to be issued and delivered on or about October 3, 2006, or such other date as set forth in a Corporation Issuance Order. The Series 2006A-4 Bonds will not be issued and delivered at that time, but rather are expected to be issued and delivered on or about December 5, 2006, or such other date as set forth in a Corporation Issuance Order. Further, the Series 2006A-5 Bonds will not be issued and delivered at that time, but rather are expected to be issued and delivered on or about January 4, 2007, or such other date as set forth in a Corporation Issuance Order. The Corporation may change closing dates and order of delivery for any series of the 2006 Additional Bonds provided that all of such 2006 Bonds must be issued on or prior to June 30, 2007.
Conversion to BMA Auction Mode	The interest rate on the Series 2006 Tax-Exempt Bonds while outstanding as Tax-Exempt ARCs may be changed to a BMA Auction Mode by the Market Agent (with the consent of the Corporation and the Broker-Dealer) under the circumstances described herein.
Fixed Rate Conversion	The Series 2006 Tax-Exempt Bonds may be converted to bear interest at a Fixed Rate to their final maturity at the option of the Corporation under the circumstances described herein.
Variable Rate Conversion	The Series 2006 Tax-Exempt Bonds may be converted to bear interest at a Variable Rate at the option of the Corporation under the circumstances described herein.
Mandatory Tender Upon Conversion to Fixed Rate or Variable Rate	Bonds of any series of the Series 2006 Tax-Exempt Bonds converted to bear interest at a Fixed Rate or a Variable Rate are subject to mandatory tender for purchase as described herein, without right of retention.
Sources of Revenue and Security	<p>The Bonds, together with all other Obligations as may be entered into from time to time, are special and limited obligations of the Corporation secured by and payable solely from the Trust Estate created by the Indenture, subject to priority as described above under "Priority". The payment of the principal and interest on the Bonds is not secured by a pledge of the faith and credit or the taxing power of the Commonwealth or any political subdivision thereof. The Trust Estate includes Financed Eligible Loans to be held under the Indenture and moneys on deposit in certain of the funds and accounts established under the Indenture. Presently, all Financed Eligible Loans held under the Indenture consist of Higher Education Act Eligible Loans, and the Corporation expects that substantially all Eligible Loans made or acquired with the proceeds of the 2006 Bonds will be Higher Education Act Eligible Loans. However, the Indenture permits the Corporation to finance HEAL Loans, Qualified Institution Loans and Alternative Student Loans upon receipt of a Rating Confirmation with respect to each different type of such loans. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2006 BONDS" and "CERTAIN RISK FACTORS – Taking of Certain Actions Based on Rating Confirmations".</p> <p>Upon the initial delivery of the 2006 Bonds, it is anticipated that the value of the Trust Estate pledged under the Indenture will be equal to approximately (i) 105.8% of the aggregate principal amount of all Senior Bonds then outstanding under the Indenture; and (ii) 98.4% of the aggregate principal amount of all Senior Bonds and Subordinate Bonds then outstanding under the Indenture.</p>
Changes to the Federal Family Education Loan Program	The programs under the Higher Education Act have been the subject of numerous statutory and regulatory changes over the last several years that have resulted in material modifications to such programs. It is possible that relevant federal laws, including the Higher Education Act, will be further changed in the future in a manner

which might adversely affect the characteristics, availability or volume of Eligible Loans which can be acquired by the Corporation. See "CERTAIN RISK FACTORS - Changes in the Higher Education Act or Other Relevant Law - *Future Changes in Relevant Law*" and APPENDIX A -- "SUMMARY OF CERTAIN PROVISIONS OF THE FEDERAL FAMILY EDUCATION LOAN PROGRAM."

Certain Risk Factors

Investment in the 2006 Bonds entails investment risks, certain of which are summarized in this Official Statement under the heading "CERTAIN RISK FACTORS".

THE 2006 BONDS ARE SPECIAL AND LIMITED OBLIGATIONS OF THE CORPORATION, SECURED BY AND PAYABLE FROM SPECIFIC REVENUES, FUNDS AND OTHER ASSETS PLEDGED THEREFOR AS HEREIN DESCRIBED. THE 2006 BONDS DO NOT CONSTITUTE A DEBT, LIABILITY OR OBLIGATION OF THE COMMONWEALTH OR ANY POLITICAL SUBDIVISION THEREOF. THE PAYMENT OF THE PRINCIPAL OF AND INTEREST ON THE 2006 BONDS IS NOT SECURED BY A PLEDGE OF THE FAITH AND CREDIT OR THE TAXING POWER OF THE COMMONWEALTH OR ANY POLITICAL SUBDIVISION THEREOF. KENTUCKY'S NAME IS ON THE 2006 BONDS FOR THE BENEFIT AND CONVENIENCE OF OTHER ENTITIES IN THE COMMONWEALTH. HOWEVER, THE ONLY SECURITY WHICH IS PLEDGED FOR THE 2006 BONDS IS THE INDEPENDENT REVENUES AND ASSETS FROM THE PROJECT. THE GENERAL ASSEMBLY DOES NOT INTEND TO APPROPRIATE ANY COMMONWEALTH FUNDS TO FULFILL THE FINANCED OBLIGATION REPRESENTED BY THE 2006 BONDS. THE CORPORATION HAS NO TAXING POWER.

OFFICIAL STATEMENT
of the
KENTUCKY HIGHER EDUCATION STUDENT LOAN CORPORATION

relating to its

\$350,000,000

Student Loan Revenue Bonds

\$28,175,000 Senior Series 2006A-1
(Tax-Exempt Auction Rate Certificates)

\$42,825,000 Senior Series 2006A-2
(Taxable Auction Rate Certificates)

\$100,000,000 Senior Series 2006A-3
(Taxable Auction Rate Certificates)

\$60,000,000 Senior Series 2006A-4
(Taxable Auction Rate Certificates)

\$90,000,000 Senior Series 2006A-5
(Taxable Auction Rate Certificates)

\$29,000,000 Subordinate Series 2006B-1
(Tax-Exempt Auction Rate Certificates)

INTRODUCTION

This Official Statement, which includes the cover page, the Summary Statement and the Appendices hereto, provides information concerning the Kentucky Higher Education Student Loan Corporation (the "Corporation") marketing services as the The Student Loan PeopleSM, an independent *de jure* municipal corporation and political subdivision of the Commonwealth of Kentucky (the "Commonwealth"), and its issuance of \$350,000,000 in aggregate principal amount of Student Loan Revenue Bonds, consisting of the following series of Bonds, initially issued as Auction Rate Certificates – ARCs© ("ARCs"): the Senior Series 2006A-1 Bonds in the principal amount of \$28,175,000 (the "Series 2006A-1 Bonds"), the Senior Series 2006A-2 Bonds in the principal amount of \$42,825,000 (the "Series 2006A-2 Bonds"), the Senior Series 2006A-3 Bonds in the principal amount of \$100,000,000 (the "Series 2006A-3 Bonds"), the Senior Series 2006A-4 Bonds in the principal amount of \$60,000,000 (the "Series 2006A-4 Bonds"), the Senior Series 2006A-5 Bonds in the principal amount of \$90,000,000 (the "Series 2006A-5 Bonds" and collectively with the Series 2006A-1 Bonds, the Series 2006A-2 Bonds, the Series 2006A-3 Bonds and the Series 2006A-4 Bonds, the "Series 2006A Bonds") and the Subordinate Series 2006B-1 Bonds in the principal amount of \$29,000,000 (the "Series 2006B-1 Bonds" and collectively with the Series 2006A Bonds, the "2006 Bonds"). The 2006 Bonds are being issued pursuant to the provisions of Sections 164A.010 to 164A.240, inclusive, of the Kentucky Revised Statutes, as amended (the "Corporation Act"), and an Indenture of Trust, dated as of August 1, 2004 (the "Original Indenture") and the Fifth Supplemental Indenture of Trust, dated as of August 1, 2006 (the "Fifth Supplemental Indenture" and collectively with the Original Indenture, as previously supplemented, the "Indenture"), each between the Corporation and Wells Fargo Bank, N.A., as trustee (the "Trustee"). The Corporation presently has outstanding \$750,000,000 of Student Loan Revenue Bonds under the Indenture (the "Existing Bonds"), of which \$719,000,000 constitute Senior Bonds (the "Existing Senior Bonds") and \$31,000,000 constitute Subordinate Bonds (the "Existing Subordinate Bonds"). The term "Bonds" as used herein shall refer to the Existing Bonds, the 2006 Bonds and any Additional Bonds issued under the Indenture in the future.

Capitalized terms used and not otherwise defined herein shall have the meanings given them in APPENDIX B – "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE," APPENDIX F – "AUCTION PROCEDURES FOR THE TAX-EXEMPT ARCS" and APPENDIX H – "AUCTION PROCEDURES FOR THE TAXABLE ARCS".

The 2006 Bonds are being issued for the purposes of (a) financing the origination and acquisition of Eligible Loans (as defined herein), (b) making a deposit to the Debt Service Reserve Fund, and (c) paying the costs associated with the issuance of the 2006 Bonds. See "SOURCES AND USES OF FUNDS."

Delivery. The Series 2006A-1 Bonds, the Series 2006A-2 Bonds and the Series 2006B-1 Bonds are expected to be issued and delivered on or about August 17, 2006. The Series 2006A-3 Bonds will not be issued and delivered at that time, but rather are expected to be issued and delivered on or about October 3, 2006, or such other date as set forth in a Corporation Issuance Order. The Series 2006A-4 Bonds will not be issued and delivered at that time, but rather are expected to be issued and delivered on or about December 5, 2006, or such other date as set forth in a Corporation Issuance Order. The Series 2006A-5 Bonds will not be issued and delivered at that time, but rather are expected to be issued and delivered on or about January 4, 2007, or such other date as set forth in a Corporation Issuance Order. The Corporation may change the closing dates and order of delivery for any of the Series 2006A-3 Bonds, Series 2006A-4 Bonds and Series 2006A-5 Bonds provided that all of such Bonds must be issued on or prior to June 30, 2007.

The 2006 Bonds will bear interest at the rates established from time to time as set forth herein. The Series 2006A-1 Bonds and the Series 2006B-1 Bonds (collectively, the "Series 2006 Tax-Exempt Bonds") will be issued initially as Tax-Exempt ARCs and the Series 2006A-2 Bonds, the Series 2006A-3 Bonds, the Series 2006A-4 Bonds and the Series 2006A-5 Bonds (collectively, the "Series 2006 Taxable Bonds") will be issued as Taxable ARCs. Interest on each series of 2006 Bonds will be payable as described herein.

The interest rate on the Series 2006 Tax-Exempt Bonds while outstanding as Tax-Exempt ARCs may be changed to a BMA Auction Mode by the Market Agent (with the consent of the Corporation and the Broker-Dealer) under the circumstances described herein.

All or a portion of the Series 2006 Tax-Exempt Bonds may be converted to bear interest at a Fixed Rate to their final maturity or to a Variable Rate at the option of the Corporation under the circumstances described herein. Bonds of any series of Series 2006 Tax-Exempt Bonds converted to bear interest at a Fixed Rate or at a Variable Rate are subject to mandatory tender for purchase prior to such conversion as described herein without right of retention.

The Indenture authorizes the issuance of Senior Obligations, Subordinate Obligations, and Junior Subordinate Obligations. See APPENDIX B - "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE." The Existing Senior Bonds, the Series 2006A Bonds and any Additional Bonds issued as Senior Bonds constitute Senior Obligations, and the rights of the owners of the Existing Senior Bonds, the Series 2006A Bonds and all other Senior Obligations are superior in priority of claim as to payment to such rights of the owners of the Existing Subordinate Bonds, the Series 2006B-1 Bonds, any additional Subordinate Obligations or Junior-Subordinate Obligations, if any. The Existing Subordinate Bonds, the Series 2006B-1 Bonds and any Additional Bonds issued as Subordinate Bonds constitute Subordinate Obligations and the rights of the owners of the Existing Subordinate Bonds, the Series 2006B-1 Bonds and all other Subordinate Obligations, if any, are inferior in priority of claim as to payment to such rights of the owners of the Existing Senior Bonds, the Series 2006A Bonds and all other Senior Obligations, if any, and are superior in priority of claim as to payment to such rights of the owners of Junior-Subordinate Obligations, if any. No Junior-Subordinate Obligations are presently outstanding. Junior-Subordinate Obligations issued in the future, if any, will be inferior in priority of claim as to payment to all Senior Obligations and Subordinate Obligations.

This Official Statement contains a description of the 2006 Bonds while outstanding as ARCs but does not address any terms or conditions which would be applicable to any series of the Series 2006 Tax-Exempt Bonds if converted to bear interest at a Fixed Rate or a Variable Rate.

THE 2006 BONDS ARE SPECIAL AND LIMITED OBLIGATIONS OF THE CORPORATION, SECURED BY AND PAYABLE FROM SPECIFIC REVENUES, FUNDS AND OTHER ASSETS PLEDGED THEREFOR AS HEREIN DESCRIBED. THE 2006 BONDS DO NOT CONSTITUTE A DEBT, LIABILITY OR OBLIGATION OF THE COMMONWEALTH OR ANY POLITICAL SUBDIVISION THEREOF. THE PAYMENT OF THE PRINCIPAL OF AND INTEREST ON THE 2006 BONDS IS NOT

SECURED BY A PLEDGE OF THE FAITH AND CREDIT OR THE TAXING POWER OF THE COMMONWEALTH OR ANY POLITICAL SUBDIVISION THEREOF. KENTUCKY'S NAME IS ON THE 2006 BONDS FOR THE BENEFIT AND CONVENIENCE OF OTHER ENTITIES IN THE COMMONWEALTH. HOWEVER, THE ONLY SECURITY WHICH IS PLEDGED FOR THE 2006 BONDS IS THE INDEPENDENT REVENUES AND ASSETS FROM THE PROJECT. THE GENERAL ASSEMBLY DOES NOT INTEND TO APPROPRIATE ANY COMMONWEALTH FUNDS TO FULFILL THE FINANCED OBLIGATION REPRESENTED BY THE 2006 BONDS. THE CORPORATION HAS NO TAXING POWER.

The Trustee is the initial paying agent and registrar for the 2006 Bonds. Descriptions of the Corporation, the Guaranty Agency (as herein defined), the 2006 Bonds, the Corporation's education finance and servicing activities, the Indenture and related documents are included in this Official Statement. The descriptions of all documents included in this Official Statement do not purport to be comprehensive or definitive and are qualified in their entirety by reference to such documents, which documents are on file with the Trustee.

SOURCES AND USES OF FUNDS

The Corporation will issue an aggregate of \$350 million of 2006 Bonds on multiple dates, including the expected issuance of \$100 million in aggregate principal amount of 2006 Bonds on August 17, 2006; and the expected issuances of (i) \$100 million in aggregate principal amount of 2006 Bonds on or about October 3, 2006; (ii) \$60,000,000 in aggregate principal amount of 2006 Bonds on December 5, 2006; and (iii) \$90 million in aggregate principal amount of 2006 Bonds on or about January 4, 2007, in each case, or on other date as set forth in a Corporation Issuance Order. The Corporation expects to apply the aggregate proceeds of the 2006 Bonds as set forth below for the purposes of (i) financing the origination and acquisition of Eligible Loans (as defined herein), (ii) making a deposit to the Debt Service Reserve Fund and (iii) paying the costs associated with the issuance of the 2006 Bonds.

Sources

Bond Proceeds	<u>\$350,000,000</u>
Total Sources	<u>\$350,000,000</u>

Uses

Eligible Loan Origination and Acquisition	\$346,850,000
Reserve Fund Deposit	1,750,000
Estimated Costs of Issuance (including Underwriter's discount)	1,400,000
Total Uses	<u>\$350,000,000</u>

CHARACTERISTICS OF FINANCED ELIGIBLE LOANS

As of June 30, 2006, Financed Eligible Loans in an aggregate principal amount of \$670,257,206 were held under the Indenture. Set forth below are selected characteristics of such Financed Eligible Loans as of June 30, 2006.

Financed Eligible Loans by Loan Type

Status	Current Principal	Percentage of Total
Subsidized Stafford	\$278,146,859	41.5%
Unsubsidized Stafford	211,058,247	31.5%
PLUS/SLS	22,748,948	3.4%
Consolidation	158,303,153	23.6%
Total	\$670,257,206	100.0%

Financed Eligible Loans by Repayment Status

Status	Current Principal	Percentage of Total
In School	\$324,061,963	48.3%
Repayment	162,743,076	24.3%
In Grace	76,361,367	11.4%
Deferment	64,174,033	9.6%
Forbearance	42,916,767	6.4%
Total	\$670,257,206	100.0%

The characteristics of the Eligible Loans held under the Indenture as of June 30, 2006 will change over time, including upon the issuance of the 2006 Bonds and the use of the proceeds thereof to make and acquire Eligible Loans. No assurance can be given that changes in the future will not be material or that they will not be adverse to the interests of Bondholders. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2006 BONDS" and "CERTAIN RISK FACTORS".

SECURITY AND SOURCES OF PAYMENT FOR THE 2006 BONDS

General

The 2006 Bonds are special and limited obligations of the Corporation, secured by and payable from specific revenues, funds and other assets pledged therefor as herein described. The 2006 Bonds do not constitute a debt, liability or obligation of the Commonwealth or any political subdivision thereof. The payment of the principal of and interest on the 2006 Bonds is not secured by a pledge of the faith and credit or the taxing power of the Commonwealth or any political subdivision thereof. Kentucky's name is on the 2006 Bonds for the benefit and convenience of other entities in the Commonwealth. However, the only security which is pledged for the 2006 Bonds is the independent revenues and assets from the project. The General Assembly does not intend to appropriate any Commonwealth funds to fulfill the financed obligation represented by the 2006 Bonds. The Corporation has no taxing power.

Payment of principal and interest on the Bonds is not insured or guaranteed by any government agency or instrumentality, by any insurance company or by any other person or entity.

The Corporation Act provides that any pledge made by the Corporation shall be valid and binding from the time made and further provides that the income, revenue or other property so pledged and thereafter received by the Corporation shall immediately be subject to the lien of such pledge without any physical delivery or further act, and that the lien of any such pledge shall be valid and binding as against all parties having claims of any kind in tort, contract or otherwise against the Corporation irrespective of whether such parties have notice thereof. Pursuant to the Indenture, the Corporation has pledged the Trust Estate to the Trustee to secure the 2006 Bonds, the Existing Bonds and other Obligations issued or incurred from time to time under the Indenture.

The Bonds are special and limited obligations of the Corporation secured under the Indenture under the Indenture on a basis of parity with all Obligations, subject to payment priorities therein provided, by and payable solely from the Trust Estate established under the Indenture. The Trust Estate includes: (a) the Revenues (other than Revenues deposited in the Rebate Fund or the Operating Fund or otherwise released from the lien of the Trust Estate pursuant to the Indenture); (b) all money and investments held in the Funds created under the Indenture (other than the Rebate Fund and the Operating Fund); (c) the Financed Eligible Loans; (d) the rights of the Corporation in and to any Guarantee Agreements and any Servicing Agreements and Student Loan Purchase Agreements, as the same relate to Financed Eligible Loans; (e) the Corporation's rights in and to any Swap Facility and any Swap Provider Payments; (f) the rights of the Corporation in any collateral for Qualified Institution Loans, including without limitation, any Eligible Loans financed by a Qualifying Institution with the proceeds of a Qualified Institution Loan; and (g) any and all other property, rights and interests of every kind or description that from time to time hereafter is granted, conveyed, pledged, transferred, assigned or delivered to the Trustee as additional security under the

Indenture. No assets of the Corporation other than the Trust Estate are pledged to or available for the payment of the Bonds.

Upon the initial delivery of the 2006 Bonds, it is anticipated that the value of the assets pledged under the Indenture to secure the Bonds will equal: (i) approximately 105.8% of the principal amount of the Senior Bonds then Outstanding; and (ii) approximately 98.4% of the aggregate principal amount of all Senior and Subordinate Bonds then Outstanding under the Indenture.

Financed Eligible Loans

Financed Eligible Loans consist of all Eligible Loans held under the Indenture, including Eligible Loans originated or acquired from the proceeds of the Bonds and moneys received as payments on Financed Eligible Loans. The Corporation is authorized to utilize such payments to originate or acquire additional Eligible Loans until December 1, 2009, or such later date as does not adversely affect the ratings on any Bonds.

“Eligible Loans” may consist of Higher Education Act Eligible Loans, HEAL Loans, Qualified Institution Loans and Alternative Student Loans. “Higher Education Act Eligible Loans” are loans made to finance or refinance the costs of post-secondary education that are made under the Higher Education Act of 1965, as amended (the “Higher Education Act”). See APPENDIX A—“SUMMARY OF CERTAIN PROVISIONS OF THE FEDERAL FAMILY EDUCATION LOAN PROGRAM.” “HEAL Loans” are loans insured by the Secretary of Health and Human Services (or its successor) pursuant to the Public Health Services Act made to finance education. “Qualified Institution Loans” are loans made by the Corporation to a Qualifying Institution for the purpose of funding Higher Education Act Eligible Loans or Alternative Student Loans by such institution to students or parents of students attending such institution to finance the students’ attendance at such institution. “Alternative Student Loans” are loans, other than Higher Education Act Eligible Loans, HEAL Loans or Qualified Institution Loans, made directly or indirectly to borrowers to finance higher education. See “APPENDIX B – SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE – Definitions”.

Presently, all Financed Eligible Loans held under the Indenture consist of Higher Education Act Eligible Loans. Upon the initial delivery of the 2006 Bonds and the associated Rating Confirmations, the Corporation will be permitted to finance up to \$2 million of Alternative Loans. Furthermore, the Indenture permits the Corporation to finance HEAL Loans, Qualified Institution Loans and additional Alternative Student Loans upon receipt of a Rating Confirmation with respect to each different type of such loans.

Revenues

The Revenues pledged under the Indenture include, generally, all principal and interest payments received on behalf of or with respect to the Financed Eligible Loans, including any interest benefit payments, special allowance payments or default recoveries; all investment earnings on moneys in the various Funds established under the Indenture other than the Rebate Fund and the Cost of Issuance Fund; payments received by the Corporation pursuant to a Swap Facility; and the proceeds of any sale or other disposition of the Financed Eligible Loans.

Debt Service Reserve Fund

The Bonds are secured by, among other things, a Debt Service Reserve Fund which is created by the Indenture and pledged to the security and payment of all Obligations incurred under the Indenture. Amounts on deposit in the Debt Service Reserve Fund are to be used by the Trustee to pay amounts due on Obligations. However, prior to using any moneys in the Debt Service Reserve Fund to make payments with respect to any Obligations, the Trustee is required to apply certain amounts in the Revenue Fund and the Loan Fund for the purpose of making such payments on Obligations. The Debt Service Reserve Fund shall be maintained at a level at least equal to the Debt Service Reserve Fund Requirement, which, as of the initial Date of Issuance for the 2006 Bonds, is (with respect to the Existing Bonds and the 2006 Bonds), an amount equal to 0.50% of the principal amount of Bonds then Outstanding, provided that such amount shall be no less than \$500,000, or such other requirement as may be established as provided in the Indenture. There is no assurance that the Debt Service Reserve Fund Requirement will be maintained, increased, decreased or funded upon the issuance of any Additional Bonds. All amounts in the Debt Service Reserve Fund are available for payment for all Obligations Outstanding under the

Indenture and, upon the issuance of any Additional Bonds, such amounts in the Debt Service Reserve Fund will become available for payment of such Additional Bonds, in accordance with the priority of payment established under the Indenture.

Certain Payment Priorities

The Trust Estate is pledged equally and ratably to secure Obligations subject to provisions establishing payment priorities: (i) first to the payment of the Senior Obligations, including the Existing Senior Bonds and the Series 2006A Bonds; (ii) second to the payment of the Subordinate Obligations, including the Existing Subordinate Bonds and Series 2006B-1 Bonds; and (iii) third to the payment of the Junior-Subordinate Obligations, if any, all as provided in the Indenture. See APPENDIX B—"SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE".

Additional Bonds and Other Obligations

The Indenture permits the execution and delivery of Additional Bonds and permits certain amounts payable by the Corporation pursuant to Swap Facilities to be secured by the Trust Estate as Obligations. Any such Additional Bonds or Corporation Swap Facility payment obligations may be Senior Obligations, Subordinate Obligations or Junior-Subordinate Obligations.

The Indenture provides that the Corporation shall not issue Additional Bonds or enter into a Swap Facility prior to compliance with certain requirements, including that the Trustee shall have received a Rating Confirmation.

CERTAIN RISK FACTORS

Investors should consider the risk factors set forth below before deciding to purchase 2006 Bonds. **This section of this Official Statement does not include all risk factors, but is an attempt to summarize certain of such matters. Investors should read this Official Statement in its entirety.**

Factors Affecting Sufficiency and Timing of Receipt of Revenues in the Trust Estate

The Corporation expects that the Revenues to be received pursuant to the Indenture will be sufficient to pay principal of and interest on the Bonds, including the 2006 Bonds, when due and also to pay the annual cost of all Trustee fees, servicing costs and other expenses related thereto and the Financed Eligible Loans until the final maturity or earlier redemption of such Bonds. This expectation is based upon an analysis of cash flow assumptions, which the Corporation believes are reasonable, regarding the timing of the financing of such Eligible Loans to be held pursuant to the Indenture, the future composition of and yield on the Financed Eligible Loan portfolio, the rate of return on moneys to be invested in various Funds and Accounts under the Indenture, and the occurrence of future events and conditions. There can be no assurance, however, that the Eligible Loans will be financed as anticipated, that interest and principal payments from the Financed Eligible Loans will be received as anticipated, that the reinvestment rates assumed on the amounts in various Funds and Accounts will be realized, or that Special Allowance Payments will be received in the amounts and at the times anticipated. Furthermore, future events over which the Corporation has no control may adversely affect the Corporation's actual receipt of Revenues pursuant to the Indenture.

Receipt of principal of and interest on Financed Eligible Loans may be accelerated due to various factors, including, without limitation: (a) default claims or claims due to the disability, death or bankruptcy of the borrowers greater than those assumed; (b) actual principal amortization periods which are shorter than those assumed based upon the current analysis of the Financed Eligible Loans and the Eligible Loans expected to be financed with proceeds of the 2006 Bonds; (c) the commencement of principal repayment by borrowers on earlier dates than are assumed based upon the

current analysis of the Financed Eligible Loans and the Eligible Loans expected to be financed with proceeds of the 2006 Bonds; (d) economic conditions that induce borrowers to refinance or repay their loans prior to maturity; and (e) changes in federal law that may affect the timing of the receipt of funds by the Corporation. Lenders may make Consolidation Loans to borrowers for the purpose of retiring certain borrowers' existing loans under various federal higher education loan programs. To the extent that Financed Eligible Loans are repaid with Consolidation Loans, the Corporation will realize payment of such loans earlier than projected.

Principal of and interest on Financed Eligible Loans may be delayed due to numerous factors, including, without limitation: (a) borrowers entering deferment periods due to a return to school or other eligible purposes; (b) forbearance being granted to borrowers; (c) loans in delinquency for periods longer than assumed; (d) actual loan principal amortization periods which are longer than those assumed based upon the current analysis of the Financed Eligible Loans and the Eligible Loans expected to be financed with proceeds of the 2006 Bonds; and (e) the commencement of principal repayment by borrowers at dates later than those assumed based upon the current analysis of the Financed Eligible Loans and the Eligible Loans expected to be financed with proceeds of the 2006 Bonds.

The Corporation believes that in a fluctuating interest rate environment a factor affecting the prepayment rate on a large pool of loans similar to the Financed Eligible Loans is the difference between the interest rates on the loans (giving consideration to the cost of any refinancing) and prevailing interest rates generally. In general, if interest rates fall below the interest rates on the Financed Eligible Loans, the rate of prepayment would be expected to increase. Conversely, if interest rates rise above the interest rates on the Financed Eligible Loans, the rate of prepayment would be expected to decrease. Other factors affecting prepayment of Financed Eligible Loans include changes in the borrower's jobs, transfers, unemployment, loan forbearances and deferments, and refinancing opportunities which may provide more favorable repayment terms such as those offered under various consolidation loan programs, including the Federal direct consolidation loan programs.

If the actual receipt of Revenues under the Indenture or actual expenditures vary greatly from those projected, amounts in the Funds and Accounts may be insufficient to pay the principal of and interest on the Bonds and amounts owing on other Obligations when due. In the event that Revenues to be received under the Indenture are insufficient to pay the principal of and interest on the Bonds and amounts owing on any other Obligations when due, the Indenture authorizes, and under certain circumstances requires, the Trustee to declare an Event of Default, accelerate the payment of the Bonds, and sell the Financed Eligible Loans and all other assets comprising the Trust Estate. It is possible, however, that the Trustee would not be able to sell the Financed Eligible Loans and the other assets comprising the Trust Estate in a timely manner or for an amount sufficient to permit payment of the principal of and accrued interest on all Outstanding Bonds when due and all amounts due with respect to other Obligations. See "APPENDIX A – SUMMARY OF CERTAIN PROVISIONS OF THE FEDERAL FAMILY EDUCATION LOAN PROGRAM".

Priority of Payment and Enforcement of Rights

The Series 2006A Bonds and the Existing Senior Bonds constitute Senior Obligations, and the Series 2006B-1 Bonds and the Existing Subordinate Bonds constitute Subordinate Obligations, under the Indenture. The Corporation reserves the right to issue Additional Obligations which are equal or inferior in priority to any Senior Obligations Outstanding, including the Series 2006A Bonds and the Existing

Senior Bonds, or which are superior, equal or inferior to Subordinate Obligations, including the Series 2006B-1 Bonds and the Existing Subordinate Bonds. Under the Indenture, on each Interest Payment Date, or other date on which principal of the Bonds is payable, the Trustee is required to pay from the Revenue Fund, prior to making any payment on the Series 2006B-1 Bonds and the Existing Subordinate Bonds on any such date, the amounts due on all Senior Obligations. The Indenture provides that nonpayment of the principal of or interest on Subordinate Obligations, including the Series 2006B-1 Bonds and the Existing Subordinate Bonds while there are any Senior Obligations Outstanding, will not constitute an Event of Default under the Indenture giving rise to a right on the part of owners of the unpaid Obligations to accelerate the Bonds or to exercise any other remedy. The Indenture further provides that nonpayment of the principal of or interest on Junior-Subordinate Obligations, if any, while there are any Senior Obligations or Subordinate Obligations Outstanding, will not constitute such an Event of Default. See APPENDIX B – “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE.”

Interest Rate Risk

The interest rates on the 2006 Bonds while outstanding as Auction Rate Certificates will be based on auctions of those 2006 Bonds and will fluctuate from one interest period to another, and in the case of Tax-Exempt ARCs in a BMA Auction Mode, within the interest period, in response to changes in benchmark rates or general market conditions. The interest rates for other series of Bonds issued in the future may be fixed or based on auctions, or other indices, formulas or methods of determination. The Corporation can make no representation as to what such rates may be in the future. The Financed Eligible Loans, however, generally bear interest at an effective rate (taking into account any Special Allowance Payments, the “Loan Rates”) equal to the average bond equivalent rates of weekly auctions of certain United States Treasury bills or rates of interest on 3-month commercial paper plus margins specified for such Financed Eligible Loans. See APPENDIX A---“SUMMARY OF CERTAIN PROVISIONS OF THE FEDERAL FAMILY EDUCATION LOAN PROGRAM” hereto. As a result of these differences between the indices or methodologies used to determine the Loan Rates and the interest rates on Bonds issued under the Indenture, there could be periods of time when the Loan Rates are inadequate to cover the interest on the Bonds and Program Expenses. Further, if there is a decline in the Loan Rates, the amount of funds representing interest deposited in the Trust Estate may be reduced and, even if there is a similar reduction in the variable interest rates applicable to any series of Bonds, there may not necessarily be a similar reduction in the other amounts required to be funded out of such funds (such as certain Program Expenses).

Carry-over Amount

The Applicable ARCs Rates on the Series 2006 Taxable Bonds while outstanding as Taxable ARCs will be limited to the Maximum Rate. See APPENDIX H---“AUCTION PROCEDURES FOR THE TAXABLE ARCS” hereto. For an Interest Payment Date on which the Maximum Rate applies to the Series 2006 Taxable Bonds, the difference between the amount of interest at the Auction Rate or the Maximum Interest Rate (whichever is less) and the amount of interest at the Maximum Rate will be paid on succeeding Interest Payment Dates to the extent of available funds pursuant to the Indenture and may never be paid.

Changes in the Higher Education Act or Other Relevant Law; Federal Direct Student Loan Program

Recent and Future Changes in Relevant Law. Since its original enactment in 1965, the Higher Education Act has been amended and reauthorized numerous times and Congress is currently engaged in the reauthorization process. Certain of these amendments have significantly affected the federal student loan programs under the Higher Education Act. In addition, the United States Department of Education (the

“Department of Education”) continues to engage in the rulemaking process to revise the regulations promulgated by the Department of Education under the Higher Education Act. The Department of Education’s authority to provide interest subsidies and federal insurance for loans originated under the Higher Education Act terminates on a date specified in the Higher Education Act. Included in the Deficit Reduction Act of 2005 is the Higher Education Reconciliation Act of 2005 (the “2005 Amendments”), which amends numerous provisions of the Higher Education Act governing the Federal Family Education Loan Program (the “FFEL Program”). The 2005 Amendments also extend various provisions of the Higher Education Act through September 30, 2012 or, in some instances, September 30, 2016. Additional amendments of the Higher Education Act provisions governing the FFEL Program were included in the Emergency Supplemental Appropriations Act for Defense, the Global War on Terror and Hurricane Recovery. See “APPENDIX A – SUMMARY OF CERTAIN PROVISIONS OF THE FEDERAL FAMILY EDUCATION LOAN PROGRAM.”

During the continued reauthorization process of other provisions of the Higher Education Act, additional amendments are likely. Any changes could affect the FFELP Loans expected to be held under the Indenture following the issuance of the Series 2006 Bonds. It is not possible to predict whether or when any proposals may be introduced, in what form they may be adopted, or the final content of any such proposals and their effect upon the Corporation’s Program.

While Congress has consistently extended the effective date of the Higher Education Act and the FFEL Program, it may elect not to reauthorize the Department’s ability to provide interest subsidies and federal insurance for loans. This failure to reauthorize could adversely impact the Corporation’s Program. There can be no assurance that the Higher Education Act, or other relevant law or regulations, will not be changed in a manner that could adversely impact the Corporation’s Program.

The Higher Education Act and the FFEL Program have been subject to numerous amendments and changes over the years. These changes have included, among other things, changes in the calculation of interest rates and special allowance payments on federal student loans, changes in the requirements to offer alternate payment plans to borrowers, additional loan forgiveness provisions, and additional restrictions on guarantors’ use of funds. As a result of the changes to the FFEL Program, the net revenues resulting to holders of student loans have in some cases been reduced and may be further reduced in the future. In addition, expansion of the William D. Ford Federal Direct Student Loan Program (the “FDSL Program”) and other federal programs to assist students and their families in paying higher education costs may result in reduction over time in the volume of loans made under the FFEL Program. As these reductions occur, cost increases and revenue reductions for guarantee agencies and lenders may occur. See APPENDIX A--“SUMMARY OF CERTAIN PROVISIONS OF THE FEDERAL FAMILY EDUCATION LOAN PROGRAM.”

Federal Budgetary Legislation. The availability of various federal payments in connection with the FFEL Program is subject to federal budgetary appropriation. In recent years, federal budgetary legislation has been enacted which has provided, subject to certain conditions, for the mandatory curtailment of certain federal budget expenditures, including expenditures in connection with the FFEL Program and the recovery of certain advances previously made by the federal government to state guarantee agencies in order to achieve certain deficit reduction guidelines. The Corporation cannot predict the final content of any such legislation or the effect of such legislation on its Program. No additional representation is made as to the

effect, if any, of future federal budgetary appropriation or legislation upon expenditures by the Department of Education, or the effect, if any, of any future legislation or regulations upon the Corporation's Program or other factors that could potentially affect timely payment of the 2006 Bonds.

Financial Status of the Guaranty Agencies

A deterioration in the financial status of a Guaranty Agency could result in the inability of such Guaranty Agency to make guaranty claim payments to the Corporation. Among the possible causes of deterioration in a Guaranty Agency's financial status are: (a) an increase in the amount and percentage of defaulting Higher Education Act Eligible Loans guaranteed by such Guaranty Agency; (b) an increase in the costs incurred by such Guaranty Agency in connection with Higher Education Act Eligible Loans guaranteed; and (c) a reduction in revenues received in connection with Higher Education Act Eligible Loans guaranteed. The Higher Education Act grants the Department of Education broad powers over Guaranty Agencies and their reserves. These provisions create a risk that the resources available to the Guaranty Agencies to meet their guaranty obligations may be reduced and no assurance can be given that exercise of such powers by the Department of Education will not affect the overall financial condition of the Guaranty Agencies. Under Section 432(o) of the Higher Education Act, if the Department of Education has determined that a Guaranty Agency is unable to meet its guaranty obligations, the loan holder may submit claims directly to the Department of Education and the Department of Education is required to pay the full guaranty claim amount due with respect thereto in accordance with guaranty claim processing standards no more stringent than those of the Guaranty Agency. However, the Department of Education's obligation to pay guaranty claims directly in this fashion is contingent upon the Department of Education making the determination referred to above. There can be no assurance that the Department of Education would ever make such a determination with respect to any specific Guaranty Agency or, if such a determination was made, whether such determination or the ultimate payment of such guaranty claims would be made in a timely manner. Virtually all of the Financed Eligible Loans are currently guaranteed by a single Guaranty Agency, the Kentucky Higher Education Assistance Authority. See "THE GUARANTY AGENCY -- The Kentucky Higher Education Assistance Authority" and APPENDIX A -- "SUMMARY OF CERTAIN PROVISIONS OF THE FEDERAL FAMILY EDUCATION LOAN PROGRAM".

Noncompliance with the Higher Education Act

Noncompliance with the Higher Education Act with respect to Higher Education Act Eligible Loans by the Corporation or by any other entity in its capacity as lender, Guaranty Agency or Servicer of Financed Eligible Loans may adversely affect payment of principal of and interest on the Bonds when due. The Higher Education Act and the applicable regulations thereunder require the lenders making Higher Education Act Eligible Loans, guarantors guaranteeing such loans and servicers servicing such loans to follow certain due diligence procedures in an effort to ensure that Higher Education Act Eligible Loans are properly made and disbursed to, and timely repaid by, the borrowers. Such due diligence procedures include certain loan application procedures, certain loan origination procedures and, when a student loan is in default, certain loan collection procedures. The procedures to make, guarantee and service Higher Education Act Eligible Loans are specifically set forth in the Code of Federal Regulations, and no attempt has been made in this Official Statement to completely describe those procedures in their entirety. Failure to follow such procedures may result in the refusal by the Department of Education to make reinsurance payments to a Guaranty Agency on such loans or may result in the Guaranty Agency's refusal to honor its guarantee on such loans to the Corporation. Such action by the Department of Education could adversely affect a Guaranty Agency's ability to honor guarantee claims made by the Corporation, and loss of guarantee payments to the Corporation by a Guaranty Agency could adversely affect payment of principal of and interest on the Bonds, including the 2006 Bonds.

If the Department of Education or the Guaranty Agency determines that the Corporation owes a liability to the Department of Education or the Guaranty Agency on any Higher Education Act Eligible Loan for which the Corporation is legal titleholder (regardless of whether such loan is held under the Trust Estate), the Department of Education or the Guaranty Agency might seek to collect that liability by offsetting against payments due to the Corporation on Financed Eligible Loans that are part of the Trust Estate. Such offsetting or shortfall of payments could adversely affect the amount of Revenues and the Corporation's ability to pay principal of and interest on the Bonds, including the 2006 Bonds.

The Office of Inspector General ("OIG") has recently completed an audit of at least one lender with respect to certain of its billing practices with respect to a particular aspect of what is referred to as a "9.5% floor rate of return" on certain of its student loans. In that instance, and with regard to the particular issues presented, the Department of Education ultimately issued a final determination letter generally concurring with the lender's billing methodologies. The Corporation understands that at least one additional such audit remains ongoing and it is possible that additional OIG audits could occur on various aspects of 9.5% floor rate of return billing in the future. Presently, approximately 18% of the Financed Eligible Loans receive the benefit of the 9.5% floor rate of return. Following the application of proceeds of the 2006 Bonds as described under "SOURCES AND USES OF FUNDS," approximately 11.6% of the Financed Eligible Loans will receive the benefit of 9.5% floor rate return. The Corporation believes that its billing practices regarding the 9.5% floor rate of return materially comply with the Higher Education Act and Department of Education guidelines, and are consistent with industry practice. In October 2005, the Department of Education conducted a program review of the Corporation's FFEL program, which focused on the Corporation's management of its tax-exempt financed portfolio and compliance with the Higher Education Act with respect to that portfolio and included a review of the eligibility of loans included in the portfolio to receive 9.5% floor rate of return payments during the period from September 1993 to March 2005. The Corporation received a report of the observations and findings resulting from the program review in May 2006. The Corporation does not believe that the ultimate outcome of the program review will have a material adverse affect upon its financial condition or upon the ability of the Trust Estate to fund the timely payment of Bond principal and interest and other payments required under the Indenture.

Uncertainty as to Available Remedies

The remedies available to owners of the Bonds upon an event of default under the Indenture or other documents described herein are in many respects dependent upon regulatory and judicial actions which often are subject to discretion and delay. Under existing constitutional and statutory law and judicial decisions, including specifically Title 11 of the United States Code (the federal bankruptcy code), the remedies specified by the Indenture and such other documents may not be readily available or may be limited. The various legal opinions to be delivered concurrently with the issuance of the 2006 Bonds will be qualified, as to the enforceability of the various legal instruments, by limitations imposed by bankruptcy, reorganization, insolvency or other similar laws affecting the rights of creditors generally and by limitations on the availability of equitable remedies. See APPENDIX D—"FORMS OF OPINIONS OF BOND COUNSEL RELATING TO THE SERIES 2006A-1 BONDS AND SERIES 2006B-1 BONDS" and APPENDIX E—"FORM OF OPINION OF BOND COUNSEL RELATING TO THE SERIES 2006A-2 BONDS, SERIES 2006A-3 BONDS, SERIES 2006A-4 BONDS AND SERIES 2006A-5 BONDS". In addition, the Higher Education Act

generally provides that a security interest in student loans made pursuant to the FFEL Program may be perfected either through the taking of possession of the promissory notes evidencing such loans (or copies thereof) or by the filing of notice of such security interest in the manner in which security interests in accounts may be perfected by applicable state law. The Higher Education Act further provides, however, that a statutory lien may be created in such student loans by entities such as the Corporation in accordance with applicable state law providing for the creation of such a statutory lien. The Corporation Act provides that any pledge made by the Corporation shall be valid and binding from the time made and further provides that the income, revenue or other property so pledged and thereafter received by the Corporation shall immediately be subject to the lien of such pledge without any physical delivery or further act, and that the lien of any such pledge shall be valid and binding against all parties having claims of any kind in tort, contract or otherwise against the Corporation irrespective of whether such parties have notice thereof. Pursuant to the Indenture, the Corporation has pledged the Trust Estate, including the Financed Eligible Loans, to the Trustee to secure the 2006 Bonds, the Existing Bonds and other Obligations issued or incurred from time to time under the Indenture. Notwithstanding these provisions of the Higher Education Act and the Corporation Act, if, through fraud, inadvertence or otherwise, a third-party lender or purchaser acting in good faith were to obtain possession of any of the promissory notes evidencing the Financed Eligible Loans (or copies thereof), any security interest of the Trustee in the related Financed Eligible Loans could be defeated.

**Taking of Certain Actions
Based on Rating
Confirmations**

The Indenture provides that the Corporation and the Trustee may undertake various actions based upon receipt by the Trustee of confirmation from the Rating Agencies that the the current respective ratings assigned by such Rating Agencies to the Bonds are not thereby impaired. Such actions include the execution and delivery of Additional Bonds, the inclusion in the Trust Estate of additional Eligible Loans which are not Higher Education Act Eligible Loans, the extension of certain dates for the acquisition or origination of Higher Education Act Eligible Loans, amendments to the Indenture, changes to the terms of Financed Eligible Loans or the level of Program Expenses to be funded from the Trust Estate and the acquisition of certain investments.

**General Economic
Conditions**

Certain general economic conditions such as a downturn in the economy resulting in increasing unemployment either regionally or nationally may result in an increase in defaults by borrowers in repaying Eligible Loans, thus causing increased default claims to be paid by Guaranty Agencies. It is impossible to predict the status of the economy or unemployment levels or at which point a downturn in the economy would impair a Guaranty Agency's ability to pay default claims. General economic conditions may also be effected by other events including the prospect of increased hostilities abroad. Certain such events may have other effects, the impact of which are difficult to project.

**Certain Military Events
Delaying Borrower
Payments**

The Servicemembers Civil Relief Act of 2003 (the "2003 Civil Relief Act"), which replaced and clarified certain benefits extended to military persons under the Soldiers' and Sailors' Civil Relief Act of 1940, provides relief to borrowers who enter active military service and to borrowers in reserve status who enter active military service after the origination of their student loans. The 2003 Civil Relief Act provides that persons on active duty in military service who have incurred loans prior to their period of active duty may request to have interest on their loans in excess of 6% per year forgiven under certain circumstances. Recent amendments to the Higher Education Act have included provisions relieving borrowers from payment obligations or other public services. Congress has periodically adopted similar legislation, and may consider additional legislation, that provides for, among

other things, interest rate caps and additional periods of deferment with respect to loans made to members of the military, including reservists. There can be no assurance that additional legislation of this type will not be adopted in the future. Accordingly, payments received by the Corporation on a Financed Eligible Loan to a borrower who qualifies for such relief may be subject to limitations during the borrower's period of military or other public service. The number and aggregate principal balances of Loans that may be affected by the application of such legislation is not known at this time. See "APPENDIX A -- SUMMARY OF CERTAIN PROVISIONS OF THE FEDERAL FAMILY EDUCATION LOAN PROGRAM -- Legislative and Administrative Matters."

DESCRIPTION OF THE 2006 BONDS

General

The 2006 Bonds will be dated their date of delivery, will mature on June 1, 2036 and will bear interest as described below. The 2006 Bonds will be issued as Auction Rate Certificates-ARCs ("ARCs") in denominations of \$25,000 or any multiple thereof ("Authorized Denominations"). The 2006 Bonds are subject to redemption prior to maturity, as described below, and acceleration prior to maturity, as described in APPENDIX B -- "GLOSSARY OF TERMS AND SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE." The Series 2006 Tax-Exempt Bonds are also subject to mandatory tender for purchase prior to conversion to bear interest at a Fixed Rate or Variable Rate. See APPENDIX F -- "AUCTION PROCEDURES FOR THE TAX-EXEMPT ARCs." The 2006 Bonds are issuable only in fully registered form, registered in the name of Cede & Co. as nominee for The Depository Trust Company, New York, New York ("DTC"). The principal of each 2006 Bond is payable to the Registered Owner (initially, Cede & Co. as nominee for DTC) upon presentation and surrender of the 2006 Bond at the designated corporate trust office of the Trustee. Interest on the 2006 Bonds is payable by the Trustee to Cede & Co. as nominee for DTC, as Registered Owner of record. Interest on the 2006 Bonds is payable to Beneficial Owners (defined below) of the 2006 Bonds according to the procedures described under "BOOK-ENTRY SYSTEM".

Should the Corporation discontinue the book-entry-only system for the 2006 Bonds and issue certificates to the Beneficial Owners, then interest will be payable by check or draft of the Trustee mailed to the person in whose name such 2006 Bonds are registered at the close of business on the Record Date. In the event the book-entry-only system is discontinued for the 2006 Bonds, the Beneficial Owners of such 2006 Bonds should be aware of the following restrictions on transfer and exchange which will then apply: the Trustee will not be obligated to register the transfer of or exchange any 2006 Bond (a) during a period beginning on the date 2006 Bonds are selected for redemption and ending on the day of the mailing of a notice of redemption of 2006 Bonds selected for redemption; (b) which 2006 Bond or portion thereof has been called for redemption; or (c) during the period beginning on the applicable Record Date and ending on the Interest Payment Date therefor.

Redemption Provisions

Extraordinary Redemption. Each Series of the Series 2006 Tax-Exempt Bonds is subject to extraordinary redemption by the Corporation, in whole or in part, on any date, at a redemption price equal to the principal amount thereof (and without premium) plus interest accrued, if any, to the date of redemption thereof, from moneys on deposit in the Series 2006 Tax-Exempt Loan Subaccount (a) which represent moneys deposited in the Series 2006 Tax-Exempt Loan Subaccount on the respective Date of Issuance of such series of Series 2006 Tax-Exempt Bonds which have not been used to finance Eligible Loans by the end of the applicable Series 2006 Acquisition Period; or (b) if the Corporation shall suffer unreasonable burdens or excessive liabilities in connection with the operation of its Program or the redemption of the Series 2006 Tax-Exempt Bonds shall be required or necessary under applicable law or regulations of the Secretary to enable the Corporation to continue to receive various federal benefits, all as evidenced by a Corporation Order.

Each Series of the Series 2006 Taxable Bonds is subject to extraordinary redemption by the Corporation, in whole or in part, on any date at a redemption price equal to the principal amount thereof (and without premium) plus interest accrued, if any, to the date of redemption thereof, from moneys on deposit in the Series 2006 Taxable Loan Subaccount (a) which represent moneys deposited in the Series 2006 Taxable Loan Subaccount on the respective Dates of Issuance of such Series 2006 Taxable Bonds which have not been used to finance Eligible Loans by the end of the applicable Series 2006 Acquisition Period; or (b) if the Corporation shall suffer unreasonable burdens or excessive liabilities in connection with the operation of its Program or the redemption of the Series 2006 Taxable Bonds shall be required or necessary under applicable law or regulations of the Secretary to enable the Corporation to continue to receive various federal benefits, all as evidenced by a Corporation Order.

Optional Redemption. So long as the 2006 Bonds are outstanding as ARCs, the 2006 Bonds are redeemable from any source of funds at the option of the Corporation in whole or in part on any date at a redemption price of par plus accrued, unpaid interest, without premium.

Notice of Redemption. The Trustee shall cause notice of any redemption to be given by mailing or delivering by electronic means a copy of the redemption notice to the Registered Owner of any 2006 Bonds designated for redemption in whole or in part, at its address as the same shall last appear upon the registration books and each Rating Agency, not more than 25 nor less than 10 days prior to the redemption date for 2006 Bonds bearing interest at an Auction Rate; provided, however, that failure to give such notice, or any defect therein, shall not affect the validity of any proceedings for the redemption of such 2006 Bonds for which no such failure or defect occurs.

Each notice of redemption shall state the following: (a) the full designated name of the issue, including the series designation, (b) the CUSIP number, (c) the principal amounts of each 2006 Bond to be redeemed, (d) the date of redemption, (e) the redemption price, (f) the name of the Trustee and the address and phone number of the Trustee's office handling the redemption, (g) the date of the 2006 Bonds, (h) the interest rate (to the extent such rate is a Fixed Rate), (i) the maturity date, (j) the place or places of payment, (k) that payment will be made upon presentation and surrender of the 2006 Bonds to be redeemed, and (l) that on and after said date interest thereon will cease to accrue.

Selection of 2006 Bonds for Redemption. If less than all of the 2006 Bonds are to be redeemed, the Corporation shall determine the series of the 2006 Bonds to be redeemed. If less than all of a series of the 2006 Bonds are to be redeemed, and there is more than one Registered Owner of the 2006 Bonds, such 2006 Bonds to be redeemed shall be selected by a random method in such manner as the Trustee shall determine. In case a 2006 Bond is of a denomination larger than \$25,000, the Trustee shall treat such 2006 Bond as representing that number of 2006 Bonds which is obtained by dividing the principal amount of such Bond by \$25,000, and any such portion of such 2006 Bond (in multiples of \$25,000) may be redeemed. Upon surrender of any 2006 Bond for redemption in part only, the Corporation shall execute and the Trustee shall authenticate and deliver to the Registered Owner thereof, the cost of which shall be paid by the Corporation, a new 2006 Bond or Bonds, as the case may be, of authorized denominations, in an aggregate principal amount equal to the unredeemed portion of the 2006 Bond surrendered.

No Subordinate Bonds issued under the Indenture, including the Series 2006B-1 Bonds, may be redeemed at the option of the Corporation unless (a) immediately after and taking into account such redemption, the Aggregate Market Value of the assets in the Trust Estate will be not less than 108% of the unpaid principal amount of all Senior Obligations Outstanding and 103% of all Senior and Subordinate Obligations Outstanding, or (b) such redemption shall not adversely affect any Rating on any of the Bonds and the Trustee shall have received a Rating Confirmation with respect thereto.

Recycling Provisions

The Corporation may transfer funds in the Revenue Fund to the Loan Fund as permitted by the Indenture to be used to originate or purchase additional Eligible Loans. Any such Eligible Loans must be originated or purchased on or prior to December 1, 2009, unless such date is extended, in accordance with the Indenture, which requires delivery of a Rating Confirmation.

BOOK-ENTRY SYSTEM

The information in this section concerning The Depository Trust Company ("DTC") and DTC's book-entry system has been obtained from DTC for inclusion herein and has not been independently verified by the Corporation KHEAA or the Underwriter. No representation is made by the Corporation, KHEAA or the Underwriter as to the completeness or accuracy of such information or as to the absence of material adverse changes in such information subsequent to the date hereof.

DTC, New York, New York, will act as securities depository for the 2006 Bonds. The 2006 Bonds will be issued as fully registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully registered bond certificate is to be issued for each series of the 2006 Bonds, as set forth in the cover page hereof, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges in Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to securities brokers and dealers, banks and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of the 2006 Bonds under the DTC system must be made by or through DTC Participants, which will receive a credit for the 2006 Bonds on DTC's records. The ownership interest of each actual purchaser of each 2006 Bond (a "Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participant's records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the 2006 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the 2006 Bonds, except in the event that use of the book-entry system for the 2006 Bonds is discontinued.

To facilitate subsequent transfers, all 2006 Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of the 2006 Bonds with DTC and their registration in the name of Cede & Co. do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 2006 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2006 Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners may wish to take certain steps to augment transmission to them of notices of significant events with respect to the 2006 Bonds such as redemptions, tenders, defaults, and proposed amendments to the 2006 Bond documents. For example, Beneficial Owners may wish to ascertain that the nominee holding the 2006 Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of the notices be provided directly to them.

Redemption notices shall be sent to Cede & Co. If less than all of the 2006 Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC, nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the 2006 Bonds unless authorized by a Direct Participant in accordance with DTC procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the issuer or trustee, as appropriate, as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the 2006 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments on the 2006 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Corporation, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name" and will be the responsibility of such Participant and not of DTC, the Trustee or the Corporation, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Corporation, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the 2006 Bonds at any time by giving reasonable notice to the Corporation or the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, bond certificates are required to be printed and delivered.

The Corporation may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, bond certificates will be printed and delivered.

Neither the Corporation, the Underwriter nor the Trustee shall have any responsibility or obligation to any Direct Participant or Indirect Participant (collectively, "DTC Participants"), any Beneficial Owner or other persons claiming a beneficial ownership interest in the 2006 Bonds under or through DTC or any DTC Participant, with respect to: (i) the accuracy of any records maintained by DTC or any DTC Participant with respect to the beneficial ownership interest in the 2006 Bonds; (ii) the payment by DTC or any DTC Participant of any amount in respect of the principal of and premium, if any, or interest on the 2006 Bonds to any Beneficial Owner or other person for the 2006 Bonds; or (iii) the delivery to any Beneficial Owner of the 2006 Bonds, or any other person, of any notice that is permitted or required to be given to owners under the Indenture. Neither the Corporation nor the Trustee shall have any responsibility with respect to obtaining consents from anyone other than the registered owners.

No assurance can be given by the Corporation or the Trustee that DTC will distribute to the DTC Participants or the DTC Participants will distribute to the Beneficial Owners: (i) payment of debt service on the 2006 Bonds paid to DTC or its nominee, as the registered owner; or (ii) any redemption or other notices, or that DTC or the DTC Participants will serve or act on a timely basis or in a manner described in this Official Statement.

TAX-EXEMPT AUCTION RATE CERTIFICATES

General

The Series 2006A-1 Bonds and the Series 2006B-1 Bonds will be issued as Tax-Exempt Auction Rate Certificates, shall be dated the date of initial delivery thereof and shall mature on June 1, 2036. "Tax-Exempt ARCs" means the Series 2006A-1 Bonds and the Series 2006B-1 Bonds outstanding as Auction Rate Certificates, prior to their conversion to bear interest at a Fixed Rate or a Variable Rate. Certain capitalized terms used herein with respect to the Tax-Exempt ARCs are defined in Appendix F to this Official Statement. Statements in this section that do not refer expressly to a particular Series of Bonds refer to each Series of the Series 2006 Tax-Exempt Bonds separately.

Interest

Interest Payments. Interest on the Series 2006 Tax-Exempt Bonds while they are Outstanding as Tax-Exempt ARCs shall accrue for each Interest Period (and, during any BMA Auction Mode, for each BMA Weekly Period within an Interest Period) and shall be payable in arrears, on each succeeding Interest Payment Date. An "Interest Payment Date" for the Tax-Exempt ARCs means each June 1 and December 1, or if any such date is not a Business Day, the next succeeding Business Day (but only for interest accrued through the preceding May 31 or November 30), commencing December 1, 2006, and in all cases at maturity or earlier redemption, upon mandatory tender and upon conversion to or from a BMA Auction Mode, or if any such date is not a Business Day, the next succeeding Business Day. Interest Payment Dates may change in the event of a change in the length of one or more Auction Periods. An "Interest Period" with respect to the Tax-Exempt ARCs means, (a) with respect to each series of the Series 2006 Tax-Exempt Bonds, so long as interest is payable on June 1 and December 1 with respect thereto and unless otherwise changed as described below under "Changes in Tax-Exempt ARC Auction Periods or Tax-Exempt ARC Auction Date and Changes to and from BMA Auction Mode -- Changes in Tax-Exempt ARC Auction Period or Periods," the Initial Interest Period and each successive period of generally 35 days thereafter, respectively, commencing on a Thursday (or the Business Day following the last day of the prior Interest Period, if the prior Interest Period does not end on a Wednesday) and ending on (and including) a Wednesday (unless such Wednesday is not followed by a Business Day, in which case on the next succeeding day that is followed by a Business Day), and (b) if, and for so long as, Interest Payment Dates are specified to occur at the end of each Auction Period, as described below under "Changes in Tax-Exempt ARC Auction Periods or Tax-Exempt ARC Auction Date and Changes to and from BMA Auction Mode -- Changes in Tax-Exempt ARC Auction Period or Periods," each period commencing on an Interest Payment Date and ending on but excluding the next succeeding Interest Payment Date.

The amount of interest distributable to holders of Tax-Exempt ARCs in respect of each \$25,000 in principal amount thereof for any Interest Period or part thereof shall be calculated by the Trustee by applying the Applicable ARCs Rate for such Interest Period or part thereof to the principal amount of \$25,000, multiplying such product by the actual number of days in the Interest Period or part thereof divided by 365 or 366, as applicable, and truncating the resultant figure to the nearest cent. Interest on the Tax-Exempt ARCs shall be computed by the Trustee on the basis of a 365-day year for the number of days actually elapsed; except that for any such calculation with respect to an Interest Payment Date occurring after January 1 of a leap year through December 31 of a leap year, such interest (for any day occurring during such period) shall be computed on the basis of a 366-day year. The Trustee shall make the calculation described above not later than the close of business on each Auction Date and date preceding any Interest Payment Date upon receipt of the relevant information from the Auction Agent.

Interest payments on the Tax-Exempt ARCs are to be made by the Trustee to DTC as the registered Owner of the Tax-Exempt ARCs, as of the Record Date preceding each Interest Payment Date. The Tax-Exempt ARCs are to be registered in the name of Cede & Co., as nominee of DTC, which is acting as the Depository for the Tax-Exempt ARCs. See "BOOK-ENTRY SYSTEM" for a description of how DTC, as Owner, is expected to disburse such payments to the Beneficial Owners.

Applicable ARCs Rate. The rate of interest on the Tax-Exempt ARCs for each Interest Period, subsequent to the Initial Interest Period, shall be equal to the annual rate of interest that results from implementation of the Auction Procedures described in Appendix F (the "Auction Rate"), unless the Auction Rate exceeds the Maximum Rate, in which case the rate of interest on the Tax-Exempt ARCs for such Interest Period (or BMA Weekly Period in

the case of the Tax-Exempt ARCs in the BMA Auction Mode) shall be the Maximum Rate or unless the Maximum Rate shall actually be lower than the All Hold Rate, if applicable, in which case the rate of interest on the Tax-Exempt ARCs for such Interest Period shall be the Maximum Rate; provided that if, on any Auction Date, an Auction is not held for any reason, then the rate of interest for the next succeeding Interest Period shall be equal to the Maximum Rate on such Auction Date; provided further, however, that if an Auction is scheduled to occur for the next Interest Period on a date that was reasonably expected to be a Business Day, but such Auction does not occur because such date is later not considered to be a Business Day, the Auction shall nevertheless be deemed to have occurred, and the applicable Auction Rate in effect for the next Interest Period will be the Auction Rate in effect for the preceding Interest Period and such Interest Period will generally be, with respect to each series of Tax-Exempt ARCs, 35 days in duration beginning on the calendar day following the date of the deemed Auction and ending on (and including) the applicable Auction Date (unless such date is not followed by a Business Day, in which case on the next succeeding day that is followed by a Business Day). If the preceding Interest Period was other than, with respect to each series of Tax-Exempt ARCs, generally 35 days in duration, the Auction Rate for the deemed Auction will instead be the rate of interest determined by the Market Agent on equivalently rated auction securities with a comparable length of auction period or in the case of Tax-Exempt ARCs which were in the BMA Auction Mode based upon an Interest Period of 35 days no longer in the BMA Auction Mode. Notwithstanding the foregoing, (a) if the ownership of the Tax-Exempt ARCs is no longer maintained in book-entry form by DTC, the rate of interest on the Tax-Exempt ARCs for any Interest Period commencing after the delivery of certificates representing Tax-Exempt ARCs as described above shall be the Maximum Rate established on the Business Day immediately preceding the first day of such Interest Period, (b) if a Payment Default occurs, Auctions will be suspended and the Applicable ARC Rate (as defined below) for the Interest Period commencing on or after such Payment Default and for each Interest Period thereafter to and including the Interest Period, if any, during which, or commencing less than two Business Days after, such Payment Default is cured will equal the Default Rate; or (c) if a proposed conversion to a Fixed Rate or Variable Rate shall have failed, as described below under the caption "Inadequate Funds for Tender of Tax-Exempt ARCs; Failed Conversion of Tax-Exempt ARCs," or a proposed conversion to a BMA Auction Mode as described under "Changes in Tax-Exempt ARC Auction Periods and Tax-Exempt ARC Auction Dates – Changes to and from BMA Auction Mode and During Auction Mode," and the next succeeding Auction Date shall be two or fewer Business Days after (or on) any such failed Rate Conversion Date (as hereinafter defined) or date proposed for conversion to a BMA Auction Mode, then an Auction shall not be held on such Auction Date and the rate of interest on the Tax-Exempt ARCs subject to the failed conversion for the next succeeding Interest Period shall be equal to the Maximum Rate calculated as of the first Business Day of such Interest Period.

The rate per annum at which interest is payable on any series of Tax-Exempt ARCs for any Interest Period is herein referred to as the "Applicable ARCs Rate." There will be separate Applicable ARCs Rates for the Bonds of each series of Tax-Exempt ARCs. Notwithstanding anything herein to the contrary, the Applicable ARCs Rate cannot exceed the Maximum Rate.

Notwithstanding anything herein to the contrary, if any Tax-Exempt ARC or portion thereof has been selected for redemption during the next succeeding Interest Period, such Tax-Exempt ARC or portion thereof will not be included in the Auction preceding such Redemption Date, and will continue to bear interest until the Redemption Date at the rate established for the Interest Period prior to said Auction.

Auction Participants

Existing Owners and Potential Owners. Participants in each Auction will include (a) "Existing Owners," which shall mean (i) with respect to and for the purpose of dealing with the Auction Agent in connection with an Auction, any Person who is a Broker-Dealer listed in the existing owner registry prior to the conversion to a Variable or Fixed Rate at the close of business on the Business Day preceding the Auction Date for such Auction, and (ii) with respect to and for the purpose of dealing with the Broker-Dealer in connection with an Auction, a Person who is a beneficial owner of Tax-Exempt ARCs; and (b) "Potential Owner," which shall mean any Person (including any Existing Owner that is (i) a Broker-Dealer when dealing with an Auction Agent and (ii) a potential beneficial owner when dealing with a Broker-Dealer), who may be interested in acquiring Tax-Exempt ARCs (or in the case of an Existing Owner, an additional principal amount of Tax-Exempt ARCs).

By purchasing Tax-Exempt ARCs, whether in an Auction or otherwise, each prospective purchaser of Tax-Exempt ARCs or its Broker-Dealer must agree and will be deemed to have agreed: (a) to participate in Auctions on the terms set forth in Appendix F hereto, (b) so long as the beneficial ownership of the Tax-Exempt ARCs is maintained in book-entry form by DTC, to sell, transfer or otherwise dispose of Tax-Exempt ARCs only pursuant to a Bid or a Sell Order (each as defined in Appendix F) in an Auction, or to or through a Broker-Dealer, provided that in the case of all transfers other than those pursuant to an Auction, the Existing Owner of Tax-Exempt ARCs so transferred, its agent member or its Broker-Dealer advises the Auction Agent of such transfer, and (c) to have its beneficial ownership of Tax-Exempt ARCs maintained at all times in book-entry form by the Securities Depository for the account of its Participant of DTC, which in turn will maintain records of such beneficial ownership, and to authorize such Participant to disclose to the Auction Agent such information with respect to such beneficial ownership as the Auction Agent may request.

Auction Agent. Deutsche Bank Trust Company Americas has been appointed as the initial Auction Agent for the Series 2006 Tax-Exempt Bonds Outstanding as Tax-Exempt ARCs. The Trustee is directed in the Indenture to enter into the initial Auction Agency Agreement with Deutsche Bank Trust Company Americas for each such series of Series 2006 Tax-Exempt Bonds. Any substitute Auction Agent shall be (a) a bank or trust company duly organized under laws of the United States of America or any state or territory thereof having its principal place of business in the Borough of Manhattan, the City of New York, and having a combined capital stock, surplus and undivided profits of at least \$50,000,000 or (b) a member of the National Association of Securities Dealers, Inc., having a capitalization of at least \$50,000,000 and, in either case, authorized by law to perform all the duties imposed upon it under the Indenture and under the Auction Agency Agreement. The Auction Agent may resign and be discharged of the duties and obligations created by the Indenture and the Auction Agency Agreement by giving at least 90 days' written notice to the Corporation, the Trustee and the Market Agent (30 days' written notice if the Auction Agent has not been paid its fee for more than 30 days). The Auction Agent may be removed at any time by the Trustee, if the Auction Agent is an entity other than the Trustee, acting at the direction of either (a) the Corporation or (b) the Owners of 66-2/3% of the aggregate principal amount of the Tax-Exempt ARCs of the series of Series 2006 Tax-Exempt Bonds for which the Auction Agent is being removed by an instrument signed by the Trustee and filed with the Auction Agent, the Corporation and the Market Agent upon at least 90 days' notice; provided that, if required by the Market Agent, an agreement in substantially the form of the Auction Agency Agreement shall be entered into with a successor Auction Agent. If the Auction Agent and the Trustee are the same entity, the Auction Agent may be removed as described above, with the Corporation acting in lieu of the Trustee.

If the Auction Agent shall resign or be removed or dissolved, or if the property or affairs of the Auction Agent shall be taken under the control of any state or federal court or administrative body because of bankruptcy or insolvency, or for any other reason, the Corporation shall use its best efforts to appoint a successor as Auction Agent, and the Trustee shall thereupon enter into an Auction Agency Agreement with such successor.

The Auction Agent is acting as agent for the Trustee and the Corporation in connection with Auctions provided that the Trustee shall not be responsible for any misconduct or negligence of the Auction Agent. In the absence of bad faith or negligence on its part, the Auction Agent shall not be liable for any action taken, suffered or omitted or for any error of judgment made by it in the performance of its duties under the Auction Agency Agreement and shall not be liable for any error of judgment made in good faith unless the Auction Agent shall have been negligent in ascertaining (or failing to ascertain) the pertinent facts.

Broker-Dealer. Existing Owners and Potential Owners may participate in Auctions only by submitting orders (in the manner described below) through a "Broker-Dealer," including UBS Securities LLC as the initial Broker-Dealer with respect to the Series 2006 Tax-Exempt Bonds, or any other broker or dealer (each as defined in the Securities Exchange Act of 1934, as amended), commercial bank or other entity permitted by law to perform the functions required of a Broker-Dealer set forth below which (a) is a "Participant" (*i.e.*, a member of, or participant in, DTC or any successor securities depository) or an affiliate of a Participant, (b) has been selected by the Corporation with the approval of the Market Agent, and (c) has entered into a Broker-Dealer Agreement with the Auction Agent that remains effective, in which the Broker-Dealer agrees to participate in Auctions as described in the Auction Procedures, as from time to time amended or supplemented.

Market Agent. The "Market Agent," initially UBS Securities LLC, acting pursuant to a Market Agent Agreement with the Trustee at the direction of the Corporation, and in connection with the Tax-Exempt ARCs, shall

act solely as agent of the Trustee and shall not assume any obligation or relationship of agency or trust for or with any of the beneficial owners. The Market Agent is designated by the Corporation, and the Trustee shall not be responsible for any misconduct or negligence of the Market Agent.

Certain Considerations Affecting Auction Rate Securities

The following information under this caption has been furnished by the Broker-Dealer for inclusion herein and has not been independently verified by the Corporation or KHEAA. No representation is made by the Corporation or KHEAA as to the completeness or accuracy of such information or as to the absence of material adverse changes in such information subsequent to the date hereof.

Role of the Broker-Dealer. The Broker-Dealer is designated in the Broker-Dealer Agreement as the Broker-Dealer to contact Holders and Prospective Holders and solicit Bids for the ARCs. The Broker-Dealer has been appointed by the issuers of various auction rate securities to serve as a dealer in the auctions for those securities and is paid by the issuers for its services. Specifically, the Broker-Dealer receives auction broker-dealer fees from such issuers at an agreed-upon annual rate that is applied to the principal amount of securities sold or successfully placed through the Broker-Dealer. The Broker-Dealer will receive auction broker-dealer fees from the Corporation with respect to the ARCs sold or successfully placed through the Broker-Dealer in Auctions. The Broker-Dealer may share a portion of such fees with other broker-dealers that submit Orders through the Broker-Dealer that are filled in the Auction.

Bidding by Initial Broker-Dealer. The Broker-Dealer is permitted, but not obligated, to submit Orders in Auctions for its own account either as a Bidder or a Seller and routinely does so in the auction rate securities market in its sole discretion. If the Broker-Dealer submits an Order for its own account, it would have an advantage over other Bidders because the Broker-Dealer would have knowledge of some or all of the other Orders placed through the Broker-Dealer in that Auction and, thus, could determine the rate and size of its Order so as to ensure that its Order is likely to be accepted in the Auction and that the Auction is likely to clear at a particular rate. For this reason, and because the Broker-Dealer is appointed and paid by the Corporation to serve as the Broker-Dealer in the Auction, the Broker-Dealer's interests in conducting an Auction may differ from those of Existing Holders and Potential Holders who participate in Auctions. See "*— Role of the Broker-Dealer.*" The Broker-Dealer would not have knowledge of Orders submitted to the Auction Agent by any other firm that is, or may in the future be appointed to accept Orders pursuant to the Broker-Dealer Agreement.

The Broker-Dealer may routinely place one or more Bids in an Auction for its own account to acquire ARCs for its inventory, to prevent an "auction failure event" (*i.e.*, an event where there are insufficient clearing Bids, which would result in the Auction Rate being set at the Maximum Rate) or an Auction from clearing at a rate that the Broker-Dealer believes does not reflect the market for the ARCs. The Broker-Dealer may place such Bids even after obtaining knowledge of some or all of the other Orders submitted through it. When bidding for its own account, the Broker-Dealer may bid inside the range of rates that it posts in its "Price Talk" or outside that range if the Broker-Dealer believes that the fair market value of the ARCs is outside of "Price Talk." See "*— Price Talk.*"

The Broker-Dealer also may routinely encourage bidding by others in Auctions, including to prevent an Auction failure event or an Auction from clearing at a rate that the Broker-Dealer believes does not reflect the market for the ARCs. The Broker-Dealer may routinely encourage such Bids even after obtaining knowledge of some or all of the other Orders submitted through it.

Bids by the Broker-Dealer are likely to affect (i) the Auction Rate — including preventing the Auction Rate from being set at the Maximum Rate or otherwise causing Bidders to receive a higher or lower rate than they might have received had the Broker-Dealer not bid and (ii) the allocation of ARCs being auctioned — including displacing some bidders who may have their Bids rejected or receive fewer ARCs than they would have received if the Broker-Dealer had not bid. Because of these practices, the fact that an Auction clears successfully does not mean that an investment in the ARCs involves no significant liquidity or credit risk. The Broker-Dealer is not obligated to continue to place such Bids in any particular Auction to prevent an Auction from failing or clearing at a rate the Broker-Dealer believes does not reflect the market for the ARCs. Investors should not assume that the Broker-Dealer will do so or that "auction failure events" will not occur.

In any particular Auction, if all outstanding ARCs are the subject of Submitted Hold Orders, the Auction Rate for the next succeeding distribution period will be the All-Hold Rate (such a situation is called an "All-Hold Auction"). See "DESCRIPTION OF THE 2006 BONDS" and "—Auctions" for a discussion of the All-Hold Rate and how it is calculated. If the Broker-Dealer holds any ARCs for its own account on an Auction Date, the Broker-Dealer will submit a Sell Order into the Auction with respect to such ARCs. If the Broker-Dealer (or any other existing Holder) submits a Sell Order into the Auction, such Auction will not be an All-Hold Auction. The Broker-Dealer may, but is not obligated to, submit Bids in that same Auction, as set forth above.

"Price Talk." Before the start of an Auction, the Broker-Dealer may, in its discretion, make available to Existing Holders and Potential Holders the Broker-Dealer's good faith judgment of the range of likely clearing rates for the Auction based on market and other information. This is known as "Price Talk." Price Talk is not a guarantee that the Auction Rate established through the Auction will be an Auction Rate within the Price Talk, and Existing Holders and Potential Holders are free to use it or ignore it. The Broker-Dealer may occasionally update and change the Price Talk based on changes in issuer credit quality or macroeconomic factors that are likely to result in a change in interest rate levels, such as an announcement by the Federal Reserve Board of a change in the Federal Funds rate or an announcement by the Bureau of Labor Statistics of unemployment numbers.

"All-or-Nothing" Bids. The Broker-Dealer does not accept "all-or-nothing" Bids (i.e., Bids whereby the Bidder proposes to reject an allocation smaller than the entire quantity bid) or any other type of Bid that allows the Bidder to avoid auction procedures that require the pro rata allocation of ARCs when there are not sufficient sell orders to fill all Bids at the clearing rate.

No Assurances Regarding Auction Outcomes. The Broker-Dealer does not provide any assurance as to the outcome of any Auction. Nor does the Broker-Dealer provide any assurance that any Bid will be accepted or that the Auction will clear at a rate that a Bidder considers acceptable. Bids may be rejected or may be only partially filled, and the rate on any ARCs purchased or retained may be lower than the Bidder expected.

Deadlines/Auction Periods. Each particular Auction has a formal time deadline by which all Bids must be submitted by the Broker-Dealer to the Auction Agent. This deadline is called the "Auction Submission Deadline." To provide sufficient time to process and submit customer Bids to the Auction Agent before the Auction Submission Deadline, the Broker-Dealer imposes an earlier deadline — called the "Internal Submission Deadline" — by which Bidders must submit Bids to the Broker-Dealer. The Internal Submission Deadline is subject to change by the Broker-Dealer. The Broker-Dealer may allow for correction of clerical errors after the Internal Submission Deadline and prior to the Auction Submission Deadline. The Broker-Dealer may submit Bids for its own account at any time until the Auction Submission Deadline. Some auction agents allow for the correction of clerical errors for a specified period of time after the Auction Submission Deadline.

No Liquidity Facility. The ARCs are not supported by a liquidity facility.

Existing Holder's Ability to Resell Auction Rate Securities May Be Limited. Existing Holders will be able to sell the ARCs in an Auction only if there are Bidders willing to purchase all the ARCs offered for sale in the Auction. If sufficient clearing Bids have not been made, Existing Holders that have submitted Sell Orders will not be able to sell in the Auction all, and may not be able to sell any, of the ARCs subject to such submitted Sell Orders. As discussed under "— Bidding by Initial Broker-Dealer," the Broker-Dealer may submit a Bid in an Auction to keep it from failing, but it is not obligated to do so. There may not always be enough Bidders to prevent an Auction from failing in the absence of the Broker-Dealer bidding in the Auction for its own account. Therefore, "auction failure events" are possible, especially if the security for the ARCs were to deteriorate, if a market disruption were to occur or if, for any reason, the Broker-Dealer were unable or unwilling to bid.

Between Auctions, there can be no assurance that a secondary market for the ARCs will develop or, if it does develop, that it will provide Existing Holders the ability to resell the ARCs in the secondary market on the terms or at the times desired by an Existing Holder. The Broker-Dealer may, in its own discretion, decide to buy or sell the ARCs in the secondary market for its own account to or from investors at any time and at any price, including at prices equivalent to, below, or above the par value of the ARCs. However, the Broker-Dealer is not obligated to make a market in the ARCs, and the Broker-Dealer may discontinue trading in the ARCs without notice.

for any reason at any time. Existing Holders who resell between Auctions may receive less than par value, depending on market conditions.

The ability to resell the ARCs will depend on various factors affecting the market for the ARCs, including news relating to the Corporation, the attractiveness of alternative investments, the perceived risk of owning the ARCs (whether related to credit, liquidity or any other risk), the tax or accounting treatment accorded the ARCs, reactions of market participants to regulatory actions (such as those described in “— Securities and Exchange Commission Inquiries”) or press reports, financial reporting cycles and market conditions generally. Demand for the ARCs may change without warning, and declines in demand may be short-lived or continue for longer periods.

Resignation of the Auction Agent Under the Auction Agent Agreement or the Broker-Dealer Under the Broker-Dealer Agreement Could Impact the Ability to Hold Auctions. The Auction Agent Agreement provides that the Auction Agent may resign from its duties as Auction Agent by giving at least 90 days’ notice to the Trustee, the Corporation, and the Broker-Dealer, or 30 days’ notice if its fee has not been paid, and does not require, as a condition to the effectiveness of such resignation, that a replacement Auction Agent be in place if its fee has not been paid. The Auction Agent may terminate this Agreement if, after notifying the Trustee and the Corporation that it has not received payment of any Auction Agent Fee due it in accordance with the terms hereof, the Auction Agent does not receive such payment within 30 days. Any resignation or termination of the Auction Agent, other than as described in the immediately preceding sentence, shall not become effective until a Successor Auction Agent has been appointed and such Successor Auction Agent has accepted such position; provided, however, that the Auction Agent may petition a court of competent jurisdiction for a replacement. The Broker-Dealer Agreement provides that the Broker-Dealer thereunder may resign upon 5 days’ notice and does not require, as a condition to the effectiveness of such resignation, that a replacement Broker-Dealer be in place. For any Auction Period during which there is no duly appointed Auction Agent, or during which there is no duly appointed Broker-Dealer, it will not be possible to hold Auctions, with the result that the interest rate on the ARCs will be the Maximum Rate.

Securities and Exchange Commission Inquiries. The Broker-Dealer has advised the Corporation that it and various other firms that participate in the auction rate securities market received letters from the Securities and Exchange Commission (“SEC”) staff in May of 2004 requesting information about their respective practices and procedures in the auction rate securities market. Pursuant to these requests, the Broker-Dealer and other firms provided information to the SEC staff. On May 31, 2006, the SEC announced that a number of firms who were active participants in the auction rate securities market settled allegations against them by agreeing to be censured, to pay in the aggregate approximately \$13 million in penalties and to cease and desist from violating certain provisions of the securities laws, to provide to customers written descriptions of their material auction practices and procedures, and to implement procedures reasonably designed to detect and prevent any failures by the firms to conduct the auction process in accordance with disclosed procedures. No assurances are given as to how the settlement may affect the market for auction rate securities. No action was taken by the SEC against UBS Securities LLC, and UBS Securities LLC is not aware of any ongoing inquiries on this matter related to UBS Securities LLC.

Tax-Exempt ARC Auctions

Prior to a Fixed Rate Conversion Date or a Variable Rate Conversion Date, Auctions to establish the Applicable ARCs Rate for each series of Tax-Exempt ARCs are to be held on each Auction Date, except as described above under “Interest -- *Applicable ARCs Rate*,” by application of the Auction Procedures described in Appendix F hereto. “Auction Date” shall mean initially, for the Series 2006A-1 Bonds and the Series 2006B-1 Bonds, September 20, 2006, and thereafter the Business Day immediately preceding the first day of each Interest Period, other than in all cases (a) each Interest Period commencing after the date when ownership of the Tax-Exempt ARCs of the applicable series is no longer maintained in book-entry form by DTC; (b) each Interest Period commencing after the occurrence and during the continuance of a Payment Default; or (c) any Interest Period commencing less than the Applicable Number of Business Days after the cure or waiver of a Payment Default. Notwithstanding the foregoing, the Auction Date for one of more Auction Periods may be changed as described below under “Changes in the Tax-Exempt ARC Auction Periods or Tax-Exempt ARC Auction Date -- Changes in the Tax-Exempt ARC Auction Date.”

The Auction Agent shall determine the Maximum Rate, the Maximum Interest Rate and the Maximum Auction Rate on each Auction Date and each BMA Weekly Reset Date and the All-Hold Rate on each Auction Date

(other than Auction Dates with respect to Interest Periods during which Tax-Exempt ARCs are to be in the BMA Auction Mode). Upon receipt of notice from the Trustee of a failed Fixed Rate Conversion or Variable Rate Conversion as described below under "Inadequate Funds for Tender of Tax-Exempt ARCs; Failed Conversion of Tax-Exempt ARCs," or a failed conversion to a BMA Auction Mode as described below under "Changes in Tax-Exempt ARC Auction Periods or Tax-Exempt Auction Dates – Changes to and from BMA Auction Mode," and if the next succeeding Auction Date shall be two or fewer Business Days after (or on) the failed Fixed Rate Conversion Date or Variable Rate Conversion Date or date proposed for conversion to a BMA Auction Mode, the Auction Agent shall not hold an Auction on such Auction Date but shall calculate the Maximum Rate as of the first Business Day of the next succeeding Interest Period and give notice thereof as provided, and to the parties specified in, the Auction Agency Agreement. If the ownership of the Tax-Exempt ARCs of the applicable series is no longer maintained in book-entry form by DTC, the Trustee shall calculate the Maximum Rate on the Business Day immediately preceding the first day of each Interest Period (or, in the case of Tax-Exempt ARCs in the BMA Auction Mode, each BMA Weekly Period) commencing after delivery of certificates representing the Tax-Exempt ARCs. If a Payment Default shall have occurred, the Trustee shall calculate the Default Rate on the first day of (a) each Interest Period (or, in the case of Tax-Exempt ARCs in the BMA Auction Mode, each BMA Weekly Period) commencing after the occurrence and during the continuance of such Payment Default and (b) any Interest Period (or, in the case of Tax-Exempt ARCs in the BMA Auction Mode, each BMA Weekly Period) commencing less than two Business Days after the cure of any Payment Default. The Auction Agent shall determine the "AA" Financial Commercial Paper Rate for each Interest Period other than the Initial Interest Period; provided, that if the ownership of the Tax-Exempt ARCs is no longer maintained in book-entry form, or if a Payment Default has occurred, then the Trustee shall determine the "AA" Financial Commercial Paper Rate for each such Interest Period (or, in the case of Tax-Exempt ARCs in the BMA Auction Mode, each BMA Weekly Period). The determination by the Trustee or the Auction Agent, as the case may be, of the "AA" Financial Commercial Paper Rate shall (in the absence of manifest error) be final and binding upon the Owners and all other parties. If calculated or determined by the Auction Agent, the Auction Agent shall promptly advise the Trustee of the "AA" Financial Commercial Paper Rate.

So long as the ownership of the Tax-Exempt ARCs is maintained in book-entry form by DTC, an Existing Owner may sell, transfer or otherwise dispose of Tax-Exempt ARCs only pursuant to a Bid or Sell Order (as defined in Appendix F hereto) placed in an Auction or through a Broker-Dealer, provided that, in the case of all transfers other than pursuant to Auctions or mandatory tenders, such Existing Owner, its Broker-Dealer or its Participant advises the Auction Agent of such transfer. Prior to a Fixed Rate Conversation Date or a Variable Rate Conversion Date, Auctions shall be conducted on each Auction Date, if there is an Auction Agent on such Auction Date, in the manner described in Appendix F hereto. A description of the Settlement Procedures to be used with respect to Auctions is contained in Appendix G hereto.

Adjustment in Percentages Pertaining to Tax-Exempt ARCs

The Market Agent shall, with the prior written consent of an Authorized Officer of the Corporation, adjust the percentage used in determining the All-Hold Rate, the Applicable Percentage used in determining the Maximum Rate and the Applicable Percentage of the S&P Weekly High Grade Index used in determining the Default Rate, if any such adjustment is necessary, in the judgment of the Market Agent, to reflect any Change of Preference Law such that Tax-Exempt ARCs paying the Maximum Rate, Tax-Exempt ARCs paying the All-Hold Rate and Tax-Exempt ARCs paying the Default Rate shall respectively have equal market values before and after such Change of Preference Law. Prior to any such adjustment, the Corporation shall give notice thereof to the Rating Agencies, and no such adjustment shall be made unless such adjustment will not adversely affect the rating on any of the Bonds. In making any such adjustment, the Market Agent shall take the following factors, as in existence both before and after such Change of Preference Law, into account: (a) short-term taxable and tax-exempt market rates and indices of such short-term rates; (b) the market supply and demand for short-term tax-exempt securities; (c) yield curves for short-term and long-term tax-exempt securities or obligations having a credit rating that is comparable to that of the Tax-Exempt ARCs; (d) general economic conditions; and (e) economic and financial factors present in the securities industry that may affect or that may be relevant to the Tax-Exempt ARCs.

The Market Agent shall effectuate an adjustment in the percentage used in determining the All-Hold Rate, the Applicable Percentage used in determining the Maximum Rate and the percentage of the S&P Weekly High Grade Index used to determine the Default Rate by delivering written notice to the Corporation, the Trustee and the Auction Agent at least 10 days prior to the Auction Date on which the Market Agent desires to effect such change.

Changes in Tax-Exempt ARC Auction Periods or Tax-Exempt ARC Auction Date and Changes to and from BMA Auction Mode

Changes in Tax-Exempt ARC Auction Period or Periods. While any of the Series 2006 Tax-Exempt Bonds are Outstanding as Tax-Exempt ARCs, the Market Agent (with the prior written consent of an Authorized Officer of the Corporation and of the Broker-Dealer) may change, upon meeting certain conditions, the length of one or more Auction Periods. In connection with any such change, or otherwise, the Market Agent may change Interest Payment Dates; any such change shall be considered a “change in the length of one or more Auction Periods” for purposes of the Indenture. Any change in Interest Payment Dates requires the consent of an Authorized Officer of the Corporation and the Broker-Dealer and must be made for the purpose of conforming to current market practice with respect to certain securities.

Except with respect to a change to a BMA Auction Mode, the change in the length of one or more Auction Periods shall not be allowed unless Sufficient Clearing Bids (as defined in Appendix F hereto) existed at both the Auction before the date on which the notice of the proposed change was given and the Auction immediately preceding the proposed change. Such change shall take effect only if certain requirements are met as described in the Indenture.

Changes in the Tax-Exempt ARC Auction Date. While any of the Series 2006 Tax-Exempt Bonds are Outstanding as Tax-Exempt ARCs, the Market Agent:

- (a) in order to conform with then-current market practice with respect to similar securities, shall, and
- (b) in order to accommodate economic and financial factors that may affect or be relevant to the day of the week constituting an Auction Date and the interest rate borne on the Tax-Exempt ARCs and upon receipt of a favorable opinion and with the written consent of an Authorized Officer of the Corporation and the Broker-Dealer, may,

specify an earlier Auction Date (but in no event more than five Business Days earlier) than the Auction Date that would otherwise be determined in accordance with the definition of “Auction Date” with respect to one or more specified Auction Periods. If such consent is required as described above, the Market Agent shall, not less than three days nor more than 45 days prior to the effective date of such change deliver to the Corporation a written request for consent together with a certificate demonstrating the need for change in reliance on such factors. The Market Agent shall provide notice of any determination to specify an earlier Auction Date for one or more Auction Periods by means of a written notice delivered at least 10 days prior to the proposed changed Auction Date to the Trustee, the Auction Agent, the Broker-Dealer, the Corporation and DTC.

Changes to and from BMA Auction Mode and During Auction Mode.

- (a) While any of the Series 2006 Tax-Exempt Bonds are outstanding as Tax-Exempt ARCs, the Market Agent may (with the prior written consent of an Authorized Officer of the Corporation and of the Broker-Dealer) change the interest rate on the ARCs to a BMA Auction Mode or if already in a BMA Auction Mode may continue the BMA Auction Mode for an Interest Period of the same duration as the preceding interest period. The Market Agent shall, not less than three days nor more than 45 days prior to the effective date of such change, deliver to the Corporation a written request for consent. The Market Agent shall initiate the change to a BMA Auction Mode or continuation of the same Interest Period within the BMA Auction Mode by giving (A) notice to the Auction Agent at least three days prior to the first Auction Date for the change to a BMA Auction Mode or continuation of the same Interest Period within the BMA Auction Mode, and (B) written notice to the Trustee, the Broker-Dealer, the Corporation and DTC.
- (b) In conjunction with a change to a BMA Auction Mode, the length of the Auction Period may be changed as described under “Changes in Tax-Exempt ARC Auction Period or Periods” above.

- (c) While in a BMA Auction Mode, the length of the next Auction Period may be (A) adjusted as described under "Changes in Tax-Exempt ARC Auction Period or Periods" above except that no such Auction Period change shall occur unless Sufficient Clearing Bids existed at the Auction held on the day immediately prior to the effective date of the new Auction Period, and if Sufficient Clearing Bids do not exist at such Auction, then the Auction Period shall automatically be converted to a 35-day Auction Period and a non-BMA Auction Mode, or (B) continued as an Auction Period of the same length, but no such subsequent Auction Period of the same length shall occur unless Sufficient Clearing Bids existed at the Auction held on the day immediately prior to the effective date of the continuation of the same length of Auction Period and if Sufficient Clearing Bids do not exist at such Auction, then the Auction Period shall automatically be converted to a 35-day Auction Period and a non-BMA Auction Mode; and in the case of conversion to a 35-day Auction Period in the case of either (A) or (B), the interest rate shall be the Maximum Rate until the next succeeding Auction Date.
- (d) If the ARCs in a BMA Auction Period are not continued in the BMA Auction Mode for another Interest Period of the same length as provided in (a) above or for an Interest Period in the BMA Auction Mode of a different length as provided in (b) above, then the length of the next Auction Period shall automatically be 35 days in a non-BMA Auction Mode and the Auction shall be conducted in accordance with the non-BMA Auction Mode Auction Procedures.

In connection with any change in the Auction terms described above, the Auction Agent shall provide such further notice to such parties as is specified in the Auction Agency Agreement.

No change shall be made to the Auction Period or Auction Date (other than conversion to or from a BMA Auction Mode and changes in the length of the Auction Period during a BMA Auction Mode) unless the Corporation and the Trustee shall have received a Rating Confirmation from each Rating Agency then rating the Tax-Exempt ARCs or any Bonds outstanding under the Indenture.

Any change to a 35-day Auction Period may, for the first such period, be a period of plus or minus any number of days necessary to give effect to non-Business Days or the day of a week on which Auctions are to be held.

Fixed Rate Conversion of Tax-Exempt ARCs

All, but not less than all, of any series of Tax-Exempt ARCs may be converted to bear interest at a Fixed Rate to their final maturity at the option of the Corporation and upon the delivery by the Corporation to the Trustee of a Favorable Opinion. If a series of Tax-Exempt ARCs is to be converted to bear interest at a Fixed Rate, a Fixed Rate Conversion Date for the Tax-Exempt ARCs of such series shall be specified.

Not later than the 15th day preceding the Fixed Rate Conversion Date, notice of the conversion shall be given by the Trustee to the Auction Agent and the Registered Owners of all such Tax-Exempt ARCs, and the Series 2006 Tax-Exempt Bonds being converted will be subject to mandatory tender as described below under "--Mandatory Tender of Tax-Exempt ARCs upon Conversion To a Fixed Rate or Variable Rate; Certain Notices."

No such conversion shall occur unless the Corporation has received a Rating Confirmation with respect to the rating on any of the Bonds (other than the Series 2006 Tax-Exempt Bonds being converted). In the event that the Corporation determines that the conversion to a Fixed Rate will not occur on a scheduled Fixed Rate Conversion Date, the Market Agent may schedule a new Auction Date for the series of Tax-Exempt ARCs as to which the conversion was to take place as provided in the Indenture.

Variable Rate Conversion of Tax-Exempt ARCs

All, but not less than all, of any series of Tax-Exempt ARCs may be converted to bear interest at a Variable Rate at the option of the Corporation and upon the delivery by the Corporation to the Trustee of a Favorable Opinion. If a series of Tax-Exempt ARCs is to be converted to bear interest at a Variable Rate, a Variable Rate Conversion Date for the Tax-Exempt ARCs of such series shall be specified.

Not later than the 15th day preceding the Variable Rate Conversion Date, notice of the conversion shall be given by the Trustee to the Auction Agent and the Registered Owners of all such Tax-Exempt ARCs, and the Series 2006 Tax-Exempt Bonds being converted will be subject to mandatory tender as described below under “--Mandatory Tender of Tax-Exempt ARCs upon Conversion To a Fixed Rate or Variable Rate, Certain Notices.”

No such conversion shall occur unless the Corporation has received a Rating Confirmation with respect to the rating on any of the Bonds (other than the Series 2006 Tax-Exempt Bonds being converted). In the event that the Corporation determines that the conversion to a Variable Rate will not occur on a scheduled Variable Rate Conversion Date, the Market Agent may schedule a new Auction Date for the series of Tax-Exempt ARCs as to which the conversion was to take place as provided in the Indenture.

Mandatory Tender of Tax-Exempt ARCs Upon Conversion To a Fixed Rate or Variable Rate; Certain Notices

Mandatory Tender Upon Conversion. Any series of Tax-Exempt ARCs to be converted to bear interest at a Fixed Rate or a Variable Rate, as the case may be, shall be subject to mandatory tender for purchase without right of retention on the Fixed Rate Conversion Date or Variable Rate Conversion Date, as the case may be (such date herein referred to as a “Rate Conversion Date”), at a price equal to the principal amount thereof plus accrued interest, if any, to such Rate Conversion Date.

Notice to Owners. Any notice of conversion given to Owners as described above under “Fixed Rate Conversion of Tax-Exempt ARCs” or “Variable Rate Conversion of Tax-Exempt ARCs,” as applicable, shall, in addition to the requirements described therein, specify that the Outstanding series of Series 2006 Tax-Exempt Bonds subject to such conversion are subject to mandatory tender pursuant to the provisions thereof and of the Indenture and will be purchased on the Rate Conversion Date by payment of a purchase price equal to the principal amount thereof plus accrued interest, if any, to such Rate Conversion Date.

Payment of Purchase Price by Trustee. On any Rate Conversion Date, the Trustee shall pay the Purchase Price of the series of Series 2006 Tax-Exempt Bonds required to be tendered for purchase, upon surrender and proper endorsement for transfer in blank with all signatures guaranteed, to the Owners thereof on or before 3:00 p.m. (New York time). Such payments shall be made in immediately available funds, but solely from moneys representing proceeds of the remarketing of the Series 2006 Tax-Exempt Bonds, to any Person other than the Corporation, and neither the Corporation, the Trustee nor the Remarketing Agent shall have any obligation to use funds from any other source.

Delivery of Bonds; Effect of Failure to Surrender Bonds. All Bonds of a series of Series 2006 Tax-Exempt Bonds to be purchased on any Rate Conversion Date shall be required to be delivered to the designated office of the Trustee or its designated agent for such purpose, at or before 12:00 Noon (New York time) on such date. If the Owner of any Series 2006 Tax-Exempt Bond that is subject to purchase as described herein fails to deliver such 2006 Tax-Exempt Bond to the Trustee or its designated agent for such purpose, for purchase on the Purchase Date, and if the Trustee or its designated agent for such purpose is in receipt of the purchase price thereof, such 2006 Tax-Exempt Bond shall nevertheless be deemed tendered and purchased on the Rate Conversion Date and shall be deemed an Undelivered Bond as described below under “Undelivered Tax-Exempt ARCs” and registration of the ownership of such Series 2006 Tax-Exempt Bond shall be transferred to the purchaser thereof as described below under “Undelivered Tax-Exempt ARCs.”

Inadequate Funds for Tenders of Tax-Exempt ARCs; Failed Conversion of Tax-Exempt ARCs

If the funds available for purchase of a series of Series 2006 Tax-Exempt Bonds are inadequate for the purchase of all Series 2006 Tax-Exempt Bonds of such series required to be tendered on any Rate Conversion Date, or if a proposed conversion to a Fixed Rate or Variable Rate, as the case may be, otherwise fails, the Trustee shall return all tendered Series 2006 Tax-Exempt Bonds to the Owners thereof. After any such failed conversion, the Series 2006 Tax-Exempt Bonds subject to the failed conversion shall remain Outstanding as Tax-Exempt ARCs. Auctions shall be conducted beginning on the first Auction Date occurring more than two Business Days after the failed Rate Conversion Date, and interest payable thereon shall be determined and paid according to the Indenture.

No Tender Purchases of Tax-Exempt ARCs on Redemption Date

Series 2006 Tax-Exempt Bonds (or portions thereof) called for redemption shall not be subject to tender and purchase on the redemption date thereof.

Undelivered Tax-Exempt ARCs

Any Tax-Exempt ARCs which are required to be tendered on a Rate Conversion Date and that are not delivered on such date, and for the payment of which there has been irrevocably held in trust in a segregated subaccount for the benefit of such Owner an amount of money sufficient to pay the Purchase Price, including any accrued interest due to (but not after) such Purchase Date with respect to such Bonds, shall be deemed to have been purchased, and shall be Undelivered Bonds. The Owners of such Undelivered Bonds shall not be entitled to any payment other than the Purchase Price due on the Purchase Date and shall no longer accrue interest or be entitled to the benefits of the Indenture.

TAXABLE AUCTION RATE CERTIFICATES

General

The Series 2006A-2 Bonds, the Series 2006A-3 Bonds, the Series 2006A-4 Bonds and the Series 2006A-5 Bonds (collectively, the "Series 2006 Taxable Bonds") will initially be issued as Taxable Auction Rate Certificates (referred to as "Taxable ARCs"), shall be dated the respective dates of initial delivery thereof and shall mature on June 1, 2036. Certain capitalized terms used herein with respect to the Taxable ARCs are defined in Appendix H to this Official Statement. Statements in this section that do not refer expressly to a particular Series of Bonds refer to each Series of the 2006 Taxable Bonds separately.

Interest

Interest Payments. Interest on the Taxable ARCs shall accrue for each Interest Period and shall be payable in arrears, on each succeeding Interest Payment Date. Initially, the term "Interest Payment Date" means September 14, 2006, with respect to the Series 2006A-2 Bonds, the dates set forth in the Corporation Issuance Orders executed and delivered in connection with the issuance of the Series 2006A-3 Bonds, the Series 2006A-4 Bonds and the Series 2006A-5 Bonds (collectively, the "2006 Additional Bonds"), and thereafter the Business Day following the last day of each Interest Period, provided, however, that if the duration of the Interest Period is one year or longer, then the Interest Payment Date therefor shall be each June 1 and December 1 (or if any such date is not a Business Day, then the next succeeding Business Day) during such Interest Period and the Business Day following the last day of such Interest Period; and shall also mean the maturity date of the Taxable ARCs, or if such maturity date is not a Business Day, the next succeeding Business Day (but only for interest accrued through the last day of the Interest Period next preceding such Interest Payment Date). Interest Payment Dates may change in the event of a change in the length of one or more Auction Periods or in certain other events. See "Changes in Taxable ARC Auction Periods or Auction Date -- Changes in Taxable ARC Auction Period or Periods" below. An Interest Period means (a) (i) with respect to the Series 2006A-2 Bonds, the period commencing on the date of delivery of the Series 2006A-2 Bonds through and including September 13, 2006, and each successive period of generally 28 days thereafter, commencing on a Thursday (or the Business Day following the last day of the prior Interest Period, if the prior Interest Period does not end on a Wednesday) and ending on (and including) a Wednesday (unless such

Wednesday is not followed by a Business Day, in which case on the next succeeding day that is followed by a Business Day), and (ii) with respect to each series of the 2006 Additional Bonds, the period commencing on the date of delivery of such series of 2006 Additional Bonds through and including the date set forth in the Corporation Issuance Order executed and delivered in connection with the issuance of such series of the 2006 Additional Bonds, and each successive period of generally 28 days thereafter, respectively, as further described in such Corporation Issuance Order, and (b) if changed as described below under "Changes in Taxable ARC Auction Periods or Auction Date -- Changes in Taxable ARC Auction Period or Periods," each period commencing on an Interest Payment Date and ending on but excluding the next succeeding Interest Payment Date.

The amount of interest distributable to holders of Taxable ARCs in respect of each \$25,000 in principal amount thereof for any Interest Period or part thereof shall be calculated by the Trustee by applying the Applicable ARCs Rate for such Interest Period or part thereof, to the principal amount of \$25,000, multiplying such product by the actual number of days in the Interest Period or part thereof, divided by 365 or 366, as applicable, and truncating the resultant figure to the nearest cent. Interest on the Taxable ARCs shall be computed by the Trustee on the basis of a 365-day year for the number of days actually elapsed; except that, for any such calculation with respect to an Interest Payment Date occurring after January 1 of any year preceding a leap year through December 31 of such year (being the leap year), such interest (for any day occurring during such period) shall be computed on the basis of a 366-day year period. The Trustee shall make the calculation described above not later than the close of business on each Auction Date. In the event an Interest Payment occurs in any Interest Period on a date other than the first day of such Interest Period, the Trustee, after confirming the calculation required above, shall calculate the portion of the Interest Amount payable on such Interest Payment Date and the portion payable on the next succeeding Interest Payment Date.

Interest payments on the Taxable ARCs are to be made by the Trustee to DTC as the Registered Owner of the Taxable ARCs, as of the Record Date preceding each Interest Payment Date. Initially, the Taxable ARCs are to be registered in the name of Cede & Co., as nominee of DTC, which is acting as the Depository for the Taxable ARCs. See "BOOK-ENTRY SYSTEM" above for a description of how DTC, as Registered Owner, is expected to disburse such payments to the Beneficial Owners.

Applicable ARCs Rate. The rate of interest on the Taxable ARCs for each Interest Period subsequent to the first Interest Period shall be equal to the annual rate of interest that results from implementation of the Auction Procedures described in Appendix H hereto (the "Auction Rate") unless the Auction Rate exceeds the Maximum Rate, in which case, the rate of interest on the Taxable ARCs for such Interest Period shall be the Maximum Rate, or unless the Maximum Rate shall actually be lower than the All-Hold Rate, in which case, the rate of interest on the Taxable ARCs for such Interest Period shall be the Maximum Rate; provided that if, on any Auction Date, an Auction is not held for any reason, then the rate of interest for the next succeeding Interest Period shall equal the Maximum Rate on such Auction Date; provided further, however, that if an Auction is scheduled to occur for the next Interest Period on a date that was reasonably expected to be a Business Day, but such Auction does not occur because such date is later not considered to be a Business Day, the Auction shall nevertheless be deemed to have occurred, and the applicable Auction Rate in effect for the next Interest Period will be the Auction Rate in effect for the preceding Interest Period and such Interest Period will generally be 28 days in duration, beginning on the calendar day following the date of the deemed Auction and ending on (and including) the applicable Auction Date (unless such date is not followed by a Business Day, in which case on the next succeeding day that is followed by a Business Day). If the preceding Interest Period was other than generally 28 days in duration, the Auction Rate for the deemed Auction will instead be the rate of interest determined by the Market Agent on equivalently rated auction securities with a comparable length of auction period. Notwithstanding the foregoing, (a) if the ownership of the Taxable ARCs is no longer maintained in book-entry form by DTC, Auctions will be suspended and the rate of interest on the Taxable ARCs for any Interest Period commencing after the delivery of certificates representing Taxable ARCs as described above shall equal the Maximum Rate on the Business Day immediately preceding the first day of such Interest Period; or (b) if a Payment Default occurs, Auctions will be suspended and the Applicable ARCs Rate (as defined below) for the Interest Period commencing on or after such Payment Default and for each Interest Period thereafter to and including the Interest Period, if any, during which, or commencing less than two Business Days after, such Payment Default is cured will equal the Non-Payment Rate.

The rate per annum at which interest is payable on the Taxable ARCs for any Interest Period is herein referred to as the "Applicable ARCs Rate." Notwithstanding anything herein to the contrary, the Applicable ARCs

Rate cannot exceed the Maximum Rate unless the Applicable ARCs Rate is the Non-Payment Rate, in which case the Non-Payment Rate may exceed the Maximum Auction Rate or (if applicable) the Net Loan Rate but cannot exceed the Maximum Interest Rate.

Notwithstanding anything herein to the contrary, if any Taxable ARC or portion thereof has been selected to be redeemed during the next succeeding Interest Period, such Taxable ARC or portion thereof, will not be included in the Auction preceding such Redemption Date, and said Taxable ARC or portion thereof will continue to bear interest until the Redemption Date at the rate established for the Interest Period prior to said Auction.

Carry-over Amounts. If the Auction Rate for the Taxable ARCs is greater than the Maximum Rate, then the interest rate applicable for that Auction Period will be the Maximum Rate. The excess of the amount of interest that would have accrued on the Taxable ARCs at the lesser of the Auction Rate or the Maximum Interest Rate over the amount of interest actually accrued at the Maximum Rate will accrue and be designated as the Carry-over Amount. The determination of the Carry-over Amount will be made separately for each Series of ARCs. The Carry-over Amount will bear simple interest calculated at a rate equal to One-Month LIBOR (as determined by the Auction Agent, provided the Trustee has received notice of One-Month LIBOR from the Auction Agent, and if the Trustee has not, then as determined by the Trustee) from the Interest Payment Date for the Auction Period with respect to which such Carry-over Amount was calculated, until paid in full or cancelled. Any payment in respect of any Carry-over Amount shall be applied, first, to any accrued interest payable thereon and thereafter in reduction of such Carry-over Amount. As used in the Indenture, the terms "principal" and "interest" do not include within the meanings of such terms the Carry-over Amount or any interest accrued on any Carry-over Amount except where expressly referred to. The Carry-over Amount will be calculated for each Taxable ARC by the Auction Agent during the Auction Period in sufficient time for the Trustee to give notice to each Owner of a Taxable ARC of such Carry-over Amount as described in the following sentence. On the Interest Payment Date for an Auction Period during which a Carry-over Amount has accrued, the Trustee will give written notice to each Owner of a Taxable ARC on which a Carry-over Amount has accrued of such Carry-over Amount, which written notice may accompany the payment of interest by check made to each such Owner on such Interest Payment Date, or otherwise will be mailed on such Interest Payment Date by first-class mail, postage prepaid, to each such Owner at such Owner's address as it appears on the books of registry maintained by the Trustee. Such notice will state, in addition to such Carry-over Amount, that, unless and until such Taxable ARC has been redeemed or has been deemed no longer Outstanding under the Indenture (after which all accrued Carry-over Amount (and all accrued interest thereon) that remains unpaid will be extinguished and no Carry-over Amount (or interest accrued thereon) will be paid with respect to such Taxable ARC), (i) the Carry-over Amount (and interest accrued thereon, calculated at a rate equal to One-Month LIBOR) will be paid by the Trustee in part or in whole, on the next occurring Interest Payment Date for such Taxable ARC, and on each succeeding Interest Payment Date until paid, for each Auction Period subsequent to the Auction Period in which such Carry-over Amount accrued but solely (a) to the extent that during such subsequent Auction Period, no additional Carry-over Amount is accruing on such Taxable ARC, and if paid, such Carry-over Amount is paid solely to the extent that during such Auction Period the amount of interest that would be payable on such Taxable ARC at the Maximum Rate exceeds the amount of interest that would otherwise be payable on such Taxable ARC at the interest rate in effect for such Auction Period and (b) money is available pursuant to the terms of the Indenture on any such Interest Payment Date in an amount sufficient to pay all or a portion of the amount of such excess calculated pursuant to the preceding clause (a), and (ii) interest will accrue on the Carry-over Amount at a rate equal to One-Month LIBOR until such Carry-over Amount is paid in full or is cancelled. The right to receive the Carry-over Amount payable with respect to any Taxable ARC may not be assigned or transferred apart from such Taxable ARC, and the Carry-over Amount due on any Interest Payment Date with respect to any Taxable ARC shall be payable solely to the Registered Owner of such Taxable ARC on the applicable Record Date for such Interest Payment Date.

The Carry-over Amount for any Taxable ARC will be paid by the Trustee to the then Registered Owner of the Outstanding Taxable ARCs on the next occurring Interest Payment Date, and each succeeding Interest Payment Date to the then Registered Owner until paid, for a subsequent Auction Period if and to the extent that (i) during such subsequent Auction Period, no additional Carry-over Amount is accruing on the Taxable ARCs, (ii) and if paid, such Carry-over Amount is payable solely to the extent that during such Auction Period, the amount of interest that would be payable on such Taxable ARCs at the Maximum Rate exceeds the amount of interest that is payable for such Auction Period at the interest rate in effect for such Auction Period, (iii) on such Interest Payment Date, first, there are sufficient moneys in the Revenue Fund to pay all interest due on the Bonds on such Interest Payment Date

and second, there are sufficient moneys in the Revenue Fund to pay a portion or all of the Carry-over Amount described in clause (ii) above, after giving effect to the transfers described in the Indenture and (iv) the Aggregate Market Value of the Trust Estate as of such Interest Payment Date is equal to at least 101% of the unpaid principal amount of all Obligations Outstanding. Any Carry-over Amount (and any interest accrued thereon) on any Taxable ARC which is due and payable on an Interest Payment Date, which Taxable ARC is to be redeemed or deemed no longer Outstanding under the Indenture on said Interest Payment Date, will be paid to the Owner thereof on said Interest Payment Date to the extent that moneys are available therefor in accordance with the provisions of the Indenture; provided, however, that any Carry-over Amount (and any interest accrued thereon) which is not yet due and payable on said Interest Payment Date will be cancelled with respect to each Taxable ARC that is to be redeemed or deemed no longer Outstanding under the Indenture on such Interest Payment Date and will not be paid on any succeeding Interest Payment Date. To the extent that any portion of the Carry-over Amount remains unpaid after payment of a portion thereof, such unpaid portion of the Carry-over Amount will be paid in whole or in part until fully paid by the Trustee on the next occurring Interest Payment Date or Dates, as necessary for a subsequent Auction Period or Periods, if and to the extent that the conditions in the third preceding sentence are satisfied. On any Interest Payment Date on which the Trustee pays only a portion of the Carry-over Amount on a Taxable ARC, the Trustee will give written notice in the manner set forth in the preceding paragraph above to the Owner of such Taxable ARC receiving such partial payment of the Carry-over Amount remaining unpaid on such Taxable ARC.

Whether the Carry-over Amount for the Taxable ARCs will be paid on any particular Interest Payment Date in each subsequent Auction Period will be determined as described above and the Trustee will make payment of the Carry-over Amount in the same manner as, and from the same subaccount from which, it pays interest on the Taxable ARCs on any Interest Payment Date.

ANY UNPAID CARRY-OVER AMOUNT ON A TAXABLE ARC NOT DUE AND PAYABLE WITH RESPECT TO SUCH ARC IN ACCORDANCE WITH LIMITATIONS DESCRIBED ABOVE ON THE REDEMPTION DATE WITH RESPECT TO SUCH TAXABLE ARC WILL BE EXTINGUISHED UPON THE MATURITY OR OPTIONAL REDEMPTION OF SUCH TAXABLE ARC. THE CARRY-OVER AMOUNT WILL OTHERWISE CONTINUE TO ACCRUE ON OUTSTANDING TAXABLE ARCS.

Auction Participants

Existing Owners and Potential Owners. Participants in each Auction will include (a) "Existing Owners," which shall mean (i) with respect to and for the purpose of dealing with the Auction Agent in connection with an Auction, any Person who is a Broker-Dealer listed in the existing owner registry at the close of business on the Business Day preceding the Auction Date for such Auction, and (ii) with respect to and for the purpose of dealing with the Broker-Dealer in connection with an Auction, a Person who is a beneficial owner of Taxable ARCs; and (b) "Potential Owners," which shall mean any Person (including any Existing Owner that is (i) a Broker-Dealer when dealing with an Auction Agent and (ii) a potential beneficial owner when dealing with a Broker-Dealer), who may be interested in acquiring Taxable ARCs (or, in the case of an Existing Owner thereof, an additional principal amount of Taxable ARCs).

By purchasing Taxable ARCs, whether in an Auction or otherwise, each prospective purchaser of Taxable ARCs or its Broker-Dealer must agree and will be deemed to have agreed: (a) to participate in Auctions on the terms set forth in Appendix H hereto, (b) so long as the beneficial ownership of the Taxable ARCs is maintained in book-entry form by DTC, to sell, transfer or otherwise dispose of Taxable ARCs only pursuant to a Bid or a Sell Order (each as defined in Appendix H) in an Auction, or to or through a Broker-Dealer, provided that in the case of all transfers other than those pursuant to an Auction, the Existing Owner of Taxable ARCs so transferred, its agent member or its Broker-Dealer advises the Auction Agent of such transfer, and (c) to have its beneficial ownership of Taxable ARCs maintained at all times in book-entry form by the Securities Depository for the account of its Participant in DTC, which in turn will maintain records of such beneficial ownership, and to authorize such Participant to disclose to the Auction Agent such information with respect to such beneficial ownership as the Auction Agent may request.

Auction Agent. Deutsche Bank Trust Company Americas has been appointed by the Corporation as the initial Auction Agent for the Taxable ARCs. The Trustee is directed by the Corporation in the Indenture to enter into the initial Auction Agency Agreement with Deutsche Bank Trust Company Americas. Any substitute Auction

Agent shall be (a) a bank or trust company duly organized under the laws of the United States of America or any state or territory thereof having its principal place of business in the Borough of Manhattan, The City of New York, and having a combined capital stock, surplus and undivided profits of at least \$50,000,000 or (b) a member of the National Association of Securities Dealers, Inc., having a capitalization of at least \$50,000,000 and, in either case, authorized by law to perform all the duties imposed upon it under the Indenture and under the Auction Agency Agreement. The Auction Agent may resign and be discharged of the duties and obligations created by the Indenture by giving at least 90 days' written notice to the Corporation, the Trustee and the Market Agent (30 days' written notice if the Auction Agent has not been paid its fee for more than 30 days). The Auction Agent may be removed at any time by the Trustee if the Auction Agent is an entity other than the Trustee, acting at the direction of either (a) the Corporation or (b) the Owners of 66-2/3% of the aggregate principal amount of the Taxable ARCs by an instrument signed by the Trustee and filed with the Auction Agent, the Corporation and the Market Agent upon at least 90 days' notice; provided that, if required by the Market Agent, an agreement in substantially the form of the Auction Agency Agreement shall be entered into with a successor Auction Agent. If the Auction Agent and the Trustee are the same entity, the Auction Agent may be removed as described above, with the Corporation acting in lieu of the Trustee.

If the Auction Agent shall resign or be removed or dissolved, or if the property or affairs of the Auction Agent shall be taken under the control of any state or federal court or administrative body because of bankruptcy or insolvency, or for any other reason, the Corporation shall use its best efforts to appoint a successor as Auction Agent, and the Trustee shall, upon direction from the Corporation, thereupon enter into an Auction Agency Agreement with such successor.

The Auction Agent is acting solely as agent for the Trustee and the Corporation in connection with Auctions, provided that the Trustee shall not be responsible for any misconduct or negligence of the Auction Agent. In the absence of bad faith or negligence on its part, the Auction Agent shall not be liable for any action taken, suffered or omitted or for any error of judgment made by it in the performance of its duties under the Auction Agency Agreement and shall not be liable for any error of judgment made in good faith unless the Auction Agent shall have been negligent in ascertaining (or failing to ascertain) the pertinent facts necessary to make such judgments.

Broker-Dealer. Existing Owners and Potential Owners may participate in Auctions only by submitting orders (in the manner described below) through a "Broker-Dealer" including UBS Securities LLC as the sole initial Broker-Dealer for the Taxable ARCs or any other broker or dealer (each as defined in the Securities Exchange Act of 1934, as amended), commercial bank or other entity permitted by law to perform the functions required of a Broker-Dealer set forth below which (a) is a "Participant" (i.e., a member of, or participant in, DTC or any successor securities depository) or an affiliate of a Participant, (b) has been selected by the Corporation with the approval of the Market Agent (which approval shall not be unreasonably withheld) and (c) has entered into a Broker-Dealer Agreement with the Auction Agent that remains effective, in which the Broker-Dealer agrees to participate in Auctions as described in the Auction Procedures, as from time to time amended or supplemented.

Market Agent. The "Market Agent," initially UBS Securities LLC, acting pursuant to the Market Agent Agreement, and in connection with the Taxable ARCs, shall act solely as agent of the Trustee and shall not assume any obligation or relationship of agency or trust for or with any of the Beneficial Owners. The Market Agent is designated by the Corporation, and the Trustee shall not be responsible for any misconduct or negligence of the Market Agent.

Certain Considerations Affecting Auction Rate Securities

The following information under this caption has been furnished by the Broker-Dealer for inclusion herein and has not been independently verified by the Corporation or KHEAA. No representation is made by the Corporation or KHEAA as to the completeness or accuracy of such information or as to the absence of material adverse changes in such information subsequent to the date hereof.

Role of the Broker-Dealer. The Broker-Dealer is designated in the Broker-Dealer Agreement as the Broker-Dealer to contact Holders and Prospective Holders and solicit Bids for the ARCs. The Broker-Dealer has been appointed by the issuers of various auction rate securities to serve as a dealer in the auctions for those securities

and is paid by the issuers for its services. Specifically, the Broker-Dealer receives auction broker-dealer fees from such issuers at an agreed-upon annual rate that is applied to the principal amount of securities sold or successfully placed through the Broker-Dealer. The Broker-Dealer will receive auction broker-dealer fees from the Corporation with respect to the ARCs sold or successfully placed through the Broker-Dealer in Auctions. The Broker-Dealer may share a portion of such fees with other broker-dealers that submit Orders through the Broker-Dealer that are filled in the Auction.

Bidding by Initial Broker-Dealer. The Broker-Dealer is permitted, but not obligated, to submit Orders in Auctions for its own account either as a Bidder or a Seller and routinely does so in the auction rate securities market in its sole discretion. If the Broker-Dealer submits an Order for its own account, it would have an advantage over other Bidders because the Broker-Dealer would have knowledge of some or all of the other Orders placed through the Broker-Dealer in that Auction and, thus, could determine the rate and size of its Order so as to ensure that its Order is likely to be accepted in the Auction and that the Auction is likely to clear at a particular rate. For this reason, and because the Broker-Dealer is appointed and paid by the Corporation to serve as the Broker-Dealer in the Auction, the Broker-Dealer's interests in conducting an Auction may differ from those of Existing Holders and Potential Holders who participate in Auctions. See "*— Role of the Broker-Dealer.*" The Broker-Dealer would not have knowledge of Orders submitted to the Auction Agent by any other firm that is, or may in the future be appointed to accept Orders pursuant to the Broker-Dealer Agreement.

The Broker-Dealer may routinely place one or more Bids in an Auction for its own account to acquire ARCs for its inventory, to prevent an "auction failure event" (*i.e.*, an event where there are insufficient clearing Bids, which would result in the Auction Rate being set at the Maximum Rate) or an Auction from clearing at a rate that the Broker-Dealer believes does not reflect the market for the ARCs. The Broker-Dealer may place such Bids even after obtaining knowledge of some or all of the other Orders submitted through it. When bidding for its own account, the Broker-Dealer may bid inside the range of rates that it posts in its "Price Talk" or outside that range if the Broker-Dealer believes that the fair market value of the ARCs is outside of "Price Talk." See "*— Price Talk.*"

The Broker-Dealer also may routinely encourage bidding by others in Auctions, including to prevent an Auction failure event or an Auction from clearing at a rate that the Broker-Dealer believes does not reflect the market for the ARCs. The Broker-Dealer may routinely encourage such Bids even after obtaining knowledge of some or all of the other Orders submitted through it.

Bids by the Broker-Dealer are likely to affect (i) the Auction Rate — including preventing the Auction Rate from being set at the Maximum Rate or otherwise causing Bidders to receive a higher or lower rate than they might have received had the Broker-Dealer not bid and (ii) the allocation of ARCs being auctioned — including displacing some bidders who may have their Bids rejected or receive fewer ARCs than they would have received if the Broker-Dealer had not bid. Because of these practices, the fact that an Auction clears successfully does not mean that an investment in the ARCs involves no significant liquidity or credit risk. The Broker-Dealer is not obligated to continue to place such Bids in any particular Auction to prevent an Auction from failing or clearing at a rate the Broker-Dealer believes does not reflect the market for the ARCs. Investors should not assume that the Broker-Dealer will do so or that "auction failure events" will not occur.

In any particular Auction, if all outstanding ARCs are the subject of Submitted Hold Orders, the Auction Rate for the next succeeding distribution period will be the All-Hold Rate (such a situation is called an "All-Hold Auction"). See "DESCRIPTION OF THE 2006 BONDS" and "*—Auctions*" for a discussion of the All-Hold Rate and how it is calculated. If the Broker-Dealer holds any ARCs for its own account on an Auction Date, the Broker-Dealer will submit a Sell Order into the Auction with respect to such ARCs. If the Broker-Dealer (or any other existing Holder) submits a Sell Order into the Auction, such Auction will not be an All-Hold Auction. The Broker-Dealer may, but is not obligated to, submit Bids in that same Auction, as set forth above.

"Price Talk." Before the start of an Auction, the Broker-Dealer may, in its discretion, make available to Existing Holders and Potential Holders the Broker-Dealer's good faith judgment of the range of likely clearing rates for the Auction based on market and other information. This is known as "Price Talk." Price Talk is not a guarantee that the Auction Rate established through the Auction will be an Auction Rate within the Price Talk, and Existing Holders and Potential Holders are free to use it or ignore it. The Broker-Dealer may occasionally update and change the Price Talk based on changes in issuer credit quality or macroeconomic factors that are likely to result

in a change in interest rate levels, such as an announcement by the Federal Reserve Board of a change in the Federal Funds rate or an announcement by the Bureau of Labor Statistics of unemployment numbers.

“All-or-Nothing” Bids. The Broker-Dealer does not accept “all-or-nothing” Bids (i.e., Bids whereby the Bidder proposes to reject an allocation smaller than the entire quantity bid) or any other type of Bid that allows the Bidder to avoid auction procedures that require the pro rata allocation of ARCs when there are not sufficient sell orders to fill all Bids at the clearing rate.

No Assurances Regarding Auction Outcomes. The Broker-Dealer does not provide any assurance as to the outcome of any Auction. Nor does the Broker-Dealer provide any assurance that any Bid will be accepted or that the Auction will clear at a rate that a Bidder considers acceptable. Bids may be rejected or may be only partially filled, and the rate on any ARCs purchased or retained may be lower than the Bidder expected.

Deadlines/Auction Periods. Each particular Auction has a formal time deadline by which all Bids must be submitted by the Broker-Dealer to the Auction Agent. This deadline is called the “Auction Submission Deadline.” To provide sufficient time to process and submit customer Bids to the Auction Agent before the Auction Submission Deadline, the Broker-Dealer imposes an earlier deadline — called the “Internal Submission Deadline” — by which Bidders must submit Bids to the Broker-Dealer. The Internal Submission Deadline is subject to change by the Broker-Dealer. The Broker-Dealer may allow for correction of clerical errors after the Internal Submission Deadline and prior to the Auction Submission Deadline. The Broker-Dealer may submit Bids for its own account at any time until the Auction Submission Deadline. Some auction agents allow for the correction of clerical errors for a specified period of time after the Auction Submission Deadline.

No Liquidity Facility. The ARCs are not supported by a liquidity facility.

Existing Holder’s Ability to Resell Auction Rate Securities May Be Limited. Existing Holders will be able to sell the ARCs in an Auction only if there are Bidders willing to purchase all the ARCs offered for sale in the Auction. If sufficient clearing Bids have not been made, Existing Holders that have submitted Sell Orders will not be able to sell in the Auction all, and may not be able to sell any, of the ARCs subject to such submitted Sell Orders. As discussed under “— Bidding by Initial Broker-Dealer,” the Broker-Dealer may submit a Bid in an Auction to keep it from failing, but it is not obligated to do so. There may not always be enough Bidders to prevent an Auction from failing in the absence of the Broker-Dealer bidding in the Auction for its own account. Therefore, “auction failure events” are possible, especially if the security for the ARCs were to deteriorate, if a market disruption were to occur or if, for any reason, the Broker-Dealer were unable or unwilling to bid.

Between Auctions, there can be no assurance that a secondary market for the ARCs will develop or, if it does develop, that it will provide Existing Holders the ability to resell the ARCs in the secondary market on the terms or at the times desired by an Existing Holder. The Broker-Dealer may, in its own discretion, decide to buy or sell the ARCs in the secondary market for its own account to or from investors at any time and at any price, including at prices equivalent to, below, or above the par value of the ARCs. However, the Broker-Dealer is not obligated to make a market in the ARCs, and the Broker-Dealer may discontinue trading in the ARCs without notice for any reason at any time. Existing Holders who resell between Auctions may receive less than par value, depending on market conditions.

The ability to resell the ARCs will depend on various factors affecting the market for the ARCs, including news relating to the Corporation, the attractiveness of alternative investments, the perceived risk of owning the ARCs (whether related to credit, liquidity or any other risk), the tax or accounting treatment accorded the ARCs, reactions of market participants to regulatory actions (such as those described in “— Securities and Exchange Commission Inquiries”) or press reports, financial reporting cycles and market conditions generally. Demand for the ARCs may change without warning, and declines in demand may be short-lived or continue for longer periods.

Resignation of the Auction Agent Under the Auction Agent Agreement or the Broker-Dealer Under the Broker-Dealer Agreement Could Impact the Ability to Hold Auctions. The Auction Agent Agreement provides that the Auction Agent may resign from its duties as Auction Agent by giving at least 90 days’ notice to the Trustee, the Corporation, and the Broker-Dealer, or 30 days’ notice if its fee has not been paid, and does not require, as a condition to the effectiveness of such resignation, that a replacement Auction Agent be in place if its fee has not

been paid. The Auction Agent may terminate this Agreement if, after notifying the Trustee and the Corporation that it has not received payment of any Auction Agent Fee due it in accordance with the terms hereof, the Auction Agent does not receive such payment within 30 days. Any resignation or termination of the Auction Agent, other than as described in the immediately preceding sentence, shall not become effective until a Successor Auction Agent has been appointed and such Successor Auction Agent has accepted such position; provided, however, that the Auction Agent may petition a court of competent jurisdiction for a replacement. The Broker-Dealer Agreement provides that the Broker-Dealer thereunder may resign upon 5 days' notice and does not require, as a condition to the effectiveness of such resignation, that a replacement Broker-Dealer be in place. For any Auction Period during which there is no duly appointed Auction Agent, or during which there is no duly appointed Broker-Dealer, it will not be possible to hold Auctions, with the result that the interest rate on the ARCs will be the Maximum Rate.

Securities and Exchange Commission Inquiries. The Broker-Dealer has advised the Corporation that it and various other firms that participate in the auction rate securities market received letters from the Securities and Exchange Commission ("SEC") staff in May of 2004 requesting information about their respective practices and procedures in the auction rate securities market. Pursuant to these requests, the Broker-Dealer and other firms provided information to the SEC staff. On May 31, 2006, the SEC announced that a number of firms who were active participants in the auction rate securities market settled allegations against them by agreeing to be censured, to pay in the aggregate approximately \$13 million in penalties and to cease and desist from violating certain provisions of the securities laws, to provide to customers written descriptions of their material auction practices and procedures, and to implement procedures reasonably designed to detect and prevent any failures by the firms to conduct the auction process in accordance with disclosed procedures. No assurances are given as to how the settlement may affect the market for auction rate securities. No action was taken by the SEC against UBS Securities LLC, and UBS Securities LLC is not aware of any ongoing inquiries on this matter related to UBS Securities LLC.

Taxable ARC Auctions

Auctions to establish the Applicable ARCs Rate are to be held on each Auction Date, except as described above under "Interest -- *Applicable ARCs Rate*," by application of the Auction Procedures described in Appendix H. "Auction Date" shall mean for the Series 2006A-2 Bonds, September 13, 2006, and for the 2006 Additional Bonds the date set forth in the Corporation Issuance Orders executed and delivered in connection with the issuance of such Additional Series 2006 Bonds, and thereafter, the Business Day immediately preceding the first day of each Interest Period, other than: (a) each Interest Period commencing after the ownership of the Taxable ARCs is no longer maintained in book-entry form by DTC; (b) each Interest Period commencing after the occurrence and during the continuance of a Payment Default; or (c) any Interest Period commencing less than the Applicable Number of Business Days after the cure or waiver of a Payment Default. Notwithstanding the foregoing, the Auction Date for one or more Auction Periods may be changed as described below under "Changes in Taxable ARC Auction Periods or Auction Date -- *Changes in the Taxable ARC Auction Date*".

The Auction Agent shall determine the Maximum Auction Rate, the Maximum Interest Rate, the Maximum Rate, the All-Hold Rate, One-Month LIBOR and the Applicable LIBOR-Based Rate on each Auction Date. The determination by the Auction Agent of the Maximum Auction Rate, the Maximum Interest Rate, the Maximum Rate, the All-Hold Rate, One-Month LIBOR and the Applicable LIBOR-Based Rate will (in the absence of manifest error) be final and binding upon the Owners and all other parties. If the ownership of the Taxable ARCs is no longer maintained in book-entry form by DTC, the Trustee shall calculate the Maximum Rate on the Business Day immediately preceding the first day of each Interest Period commencing after delivery of certificates representing the Taxable ARCs. If a Payment Default shall have occurred, the Trustee shall calculate the Non-Payment Rate on the first day of (a) each Interest Period commencing after the occurrence and during the continuance of such Payment Default and (b) any Interest Period commencing less than two Business Days after the cure of any Payment Default.

For any Interest Period for which any Carry-over Amount exists, the Auction Agent shall calculate One Month LIBOR.

By the 10th day of each month, the Auction Agent shall determine whether the Net Loan Rate Restriction Period will be applicable as of the 25th day of such month and the Auction Agent shall on such 10th day provide written notice to the Trustee, the Corporation and the Broker-Dealer whether the Net Loan Rate Restriction Period

will be applicable, and if the Trustee receives notice that the Net Loan Rate Restriction Period will be applicable, the Trustee shall verify that the Net Loan Rate Trigger Date has occurred. If the 25th day of the month will occur during a Net Loan Rate Restriction Period, the Corporation shall calculate the then applicable Net Loan Rate on the Business Day immediately preceding such 25th day, and shall provide written notice thereof to the Trustee, the Auction Agent and the Broker-Dealer of such Net Loan Rate. The determination by the Corporation of such Net Loan Rate will (in the absence of manifest error) be final and binding upon all Owners and other parties. The Net Loan Rate applicable to any Auction Period for which an Auction occurred during a Net Loan Rate Restriction Period shall be the Net Loan Rate most recently determined on or prior to the first day of such Auction Period.

So long as ownership of the Taxable ARCs is maintained in book-entry form, an Existing Owner may sell, transfer or otherwise dispose of Taxable ARCs only pursuant to a Bid or Sell Order (as defined in Appendix H hereto) placed in an Auction or through a Broker-Dealer, provided that, in the case of all transfers other than pursuant to Auctions, such Existing Owner, its Broker-Dealer or its Participant advises the Auction Agent of such transfer. Auctions shall be conducted on each Auction Date, if there is an Auction Agent on such Auction Date, in the manner described in Appendix H hereto. A description of the Settlement Procedures to be used with respect to Auctions for the Taxable ARCs is contained in Appendix I hereto.

Changes in Taxable ARC Auction Periods or Taxable ARC Auction Date

Changes in Taxable ARC Auction Period or Periods. The Market Agent with respect to the Taxable ARCs:

- (a) in order to conform with then current market practice with respect to similar securities, shall, or
- (b) in order to accommodate economic and financial factors that may affect or be relevant to the length of the Auction Period and the interest rate borne by the Taxable ARCs and with the prior written consent of an Authorized Officer of the Corporation, may

change, from time to time, the length of one or more Auction Periods, subject to its delivery of a Rating Confirmation. In connection with any such change, or otherwise, but for the same stated purpose, the Market Agent:

- (a) in order to conform with then-current market practice with respect to similar securities shall, and
- (b) in order to accommodate economic and financial factors that may affect or be relevant to the length of the auction Period and the interest rate borne by the Taxable ARCs and with the written consent of an Authorized Officer of the Corporation, may

change the Interest Payment Dates; and any such change will be considered a "change in the length of one or more Auction Periods" for the Indenture. If such consent is required as described above, the Market Agent shall, not less than 3 days nor more than 20 days prior to the effective date of such change, deliver to the Corporation a written request for consent together with a certificate demonstrating the need for change in reliance on such factors. The Market Agent shall initiate the change in the length of one or more Auction Periods by giving written notice to the Trustee, the Auction Agent, the Corporation and DTC at least 10 days prior to the Auction Date for such Auction Period. Any such changed Auction Period shall not be less than seven days.

The change in the length of one or more Auction Periods shall not be allowed unless Sufficient Clearing Bids (as defined in Appendix H hereto) existed at both the Auction before the date on which the notice of the proposed change was given and the Auction immediately preceding the proposed change. Such change shall take effect only if certain requirements are met as described in the Indenture.

Changes in the Taxable ARC Auction Date. The Market Agent with respect to the Taxable ARCs:

- (a) in order to conform with then current market practice with respect to similar securities, shall, or
- (b) in order to accommodate economic and financial factors that may affect or be relevant to the day of the week constituting the Auction Date and the interest rate borne by the Taxable ARCs and with the written consent of an Authorized Officer, may

specify an earlier Auction Date (but in no event more than 5 Business Days earlier) than the Auction Date that would otherwise be determined in accordance with the definition of "Auction Date" with respect to one or more specified Auction Periods. If such consent is required as described above, the Market Agent shall, not less than 3 days nor more than 20 days prior to the effective date of such change, deliver to the Corporation a written request for consent together with a certificate demonstrating the need for change in reliance on such factors. The Market Agent shall initiate the change in the Auction Date by means of a written notice delivered at least 10 days prior to the proposed changed Auction Date for such Auction Period to the Trustee, the Auction Agent, the Corporation and DTC.

In connection with any change in the Auction terms described above, the Auction Agent shall provide such further notice to such parties as is specified in the Auction Agency Agreement.

No change shall be made to the Auction Period or Auction Date unless the Corporation shall have received confirmation from any rating agency then rating the Bonds that the ratings on any of the Bonds will not be adversely affected thereby.

THE CORPORATION

The General Assembly of the Commonwealth established the Corporation in 1978 to provide a program of financing, making and purchasing student loans (as defined below) in the Commonwealth.

Governance and Functions

The Corporation is an independent *de jure* municipal corporation and political subdivision of the Commonwealth. The Corporation is authorized by the Corporation Act: (a) to make, purchase and sell, and to participate in the making, purchasing and selling of student loans (as defined below); (b) to collect and pay reasonable fees and charges in connection with its making, purchasing, selling and servicing of student loans; (c) to procure insurance in respect of all student loans made or purchased by it; (d) to make, execute, and effectuate agreements with any federal or state agency, person, or entity necessary to accomplish its corporate purposes; (e) to accept and comply with the conditions of any appropriations, loans, grants, and other aid to the Corporation; (f) to invest its funds not required for immediate disbursement; (g) to issue its notes and bonds for the purpose of carrying out its corporate powers and duties; (h) to service and collect educational loans for other lenders, holders and educational institutions; (i) to establish, finance and operate educational loan programs deemed necessary by KHEAA to make or cause to be made educational loans to meet the financial needs of eligible borrowers; and (j) in connection with such programs, enter into agreements with loan servicing organizations, guarantors, insurers, financial institutions, eligible lenders and eligible institutions. The term "student loans" as used under the heading "THE CORPORATION" means any qualified loan originated under the Higher Education Act or the Health Professions Educational Assistance Act of 1976 and with respect to programs described in clause (c) of the preceding sentence, any educational loan thereunder.

The Corporation is governed by its Board of Directors, which may officially act by a majority of its members. The Board of Directors consists of fifteen members, of whom ten are appointed by the Governor from the general public residing in the Commonwealth to serve a term of four years each and five serve *ex officio* by reason

of their positions as Treasurer of the Commonwealth, President of the Council on Postsecondary Education of the Commonwealth, Secretary of the Finance and Administration Cabinet of the Commonwealth, President of the Association of Independent Kentucky Colleges and Universities and Commissioner of Education. The Board of Directors elects from its membership a Chair, Chair Elect, and Secretary-Treasurer.

The Corporation's current Chair, Chair Elect, Secretary-Treasurer and other Directors are set forth below.

Board of Directors of the Corporation

<u>Name of Director</u>	<u>Principal Occupation</u>
Joey B. Bailey	Executive Vice President, Chief Financial Officer and Treasurer Presbyterian Church (U.S.A.) Louisville, Kentucky
Marcia Kuegel Carpenter	Guidance Counselor Davies County Public Schools Owensboro, Kentucky
Dr. Sarah Laws Chair-Elect	Provost Midway College Midway, Kentucky
Dr. Barbara C. Holsinger	Educator Asbury Theological Seminary Lexington, Kentucky
Ronald Dean Butt	Certified Financial Planner ARGI Financial Group Louisville, Kentucky
David W. Stanfield	High School Principal Harrodsburg Independent High School Harrodsburg, Kentucky
Jim A. Jackson	Retired Frankfort, Kentucky
Jerry Shroat Secretary-Treasurer	Retired Union, Kentucky
Spencer Noe Chair	Attorney at Law Bowles, Rice, McDavid, Graff & Love Lexington, Kentucky
Gary S. Cox (<i>ex officio</i>)	President Association of Independent Colleges & Universities Frankfort, Kentucky

John R. Farris	Secretary, Finance and Administration Cabinet, Commonwealth of Kentucky Frankfort, Kentucky
Charles B. Simpson	VP & CIO The Center for Rural Development Somerset, Kentucky
Jonathan Miller (<i>ex officio</i>)	State Treasurer Office of the Kentucky State Treasurer Frankfort, Kentucky
Dr. Thomas Layzell (<i>ex officio</i>)	President Council on Postsecondary Education Frankfort, Kentucky
Gene Wilhoit (<i>ex officio</i>)	Commissioner Kentucky Department of Education Frankfort, Kentucky

The officers of its Board of Directors serve for one-year terms. Pursuant to state law, members of the Corporation's Board of Directors continue to serve after expiration of their appointed term until replaced.

The Corporation currently has a staff of approximately 401 full-time equivalent employees. Its principal office is located at 10180 Linn Station Road, Post Office Box 24266, Louisville, Kentucky, 40224-0266, telephone number (502) 329-7079, website www.studentloanpeople.com.

Principal Management Personnel

Principal management personnel involved in the Corporation's Program and servicing activities are as follows:

Edward J. Cunningham, Executive Director and Chief Executive Officer, has overall management responsibility for the Corporation. Mr. Cunningham also serves as the Executive Director of KHEAA. Mr. Cunningham has over thirty years of experience in education finance. Prior to his recent appointment to KHEAA and KHESLC, he served as Senior Executive of Business Relations; First Vice President of the Education Services Group and Vice President of the Loan Division at AES-PHEAA, three years as a Manager with KPMG Peat Marwick Consulting, eleven years as Executive Director of the Iowa Student Loan Liquidity Corporation, and twelve years in commercial banking. Mr. Cunningham holds a Bachelor's of Science degree from Drake University, Des Moines, Iowa.

Richard Casey, General Counsel to KHEAA and the Corporation, provides legal services to both organizations. Mr. Casey joined KHEAA and the Corporation as General Counsel in 1978. He holds a J.D. degree from the University of Louisville and a B.S. degree in political science from Centre College of Kentucky.

Sherry M. Cooper, Senior Vice President-Corporate Counsel, is responsible for general legal and contractual compliance activities. Ms. Cooper joined the Corporation in April 1997, after serving as an attorney with the Kentucky Department of Insurance. Her previous employment also includes serving an appointment on the Kentucky Health Policy Board, two years in the private practice of law, and four years with Legal Services. Since 1998, Ms. Cooper has served on the NCHELP Regulation Committee and has participated in the NCHELP Legal Committee. Ms. Cooper holds a J.D. from Chase College of Law, Northern Kentucky University, and a B.A. in Elementary Education from the College of the Ozarks, Missouri.

Mary C. Henry, Senior Vice President-Operations, is responsible for customer service, loan administration and operational support. Ms. Henry joined the Corporation in 1994 and previously served as Vice President, Information Systems. Her prior employment includes fifteen years with Liberty National Bank & Trust Company,

where she served as Vice President of Student and Retirement Services. Ms. Henry is a graduate of Bellarmine College, Louisville, with an M.B.A., and a graduate of the University of Louisville, with a B.S. in Commerce.

The Chief Financial Officer and Chief Operating Officer positions are vacant at this time. The Executive Director is expected to fill these positions in the near future.

The Corporation's Program and Servicing Activities

General. The Corporation's Program and servicing activities currently include: (i) the origination and secondary market acquisition of Higher Education Act Eligible Loans; (ii) the financing of Higher Education Act Eligible Loans; and (iii) the servicing of Higher Education Act Eligible Loans and of other student loans. The Corporation reserves the right to expand its Program activities to include the origination, acquisition and financing of other student loans, subject to compliance with applicable law and contractual requirements. The Corporation intends to initially apply substantially all available original proceeds of the 2006 Bonds to finance Higher Education Act Eligible Loans. However, the Indenture permits the inclusion in the Trust Estate of HEAL Loans, Qualified Institution Loans and Alternative Student Loans upon receipt of a Rating Confirmation with respect to each different type of such loans.

Higher Education Act Eligible Loan Origination and Acquisition. The Corporation is an eligible lender for purposes of the Federal Family Education Loan Program and originates Higher Education Act Eligible Loans both for its own account and on behalf of other eligible lenders. Certain origination functions are performed for the Corporation by KHEAA. In addition, the Corporation acquires Higher Education Act Eligible Loans from other eligible lenders, both pursuant to ongoing contractual obligations and on a transactional basis. Sixteen (16) lending institutions currently refer loan applications to the Corporation for origination and three lending institutions currently participate in the secondary market program.

Higher Education Act Eligible Loan Financing. The Corporation has heretofore issued numerous series of its student loan revenue bonds under resolutions separate and apart from the Indenture, of which \$947,250,000 remained outstanding as of June 30, 2006 (collectively, the "Education Finance Bonds"). The Education Finance Bonds are not secured by the Indenture, or by any interest in the Trust Estate pledged under the Indenture to the payment of the Bonds, including the 2006 Bonds.

The Corporation currently also has in effect a line of credit agreement (the "Line of Credit") pursuant to which it may receive advances from time to time in an aggregate outstanding principal amount of up to \$100,000,000. Payment obligations of the Corporation arising from advances pursuant to the Line of Credit are limited as to recourse to the trust estate established pursuant to a Line of Credit Trust Agreement. There were no outstanding advances under the Line of Credit as of June 30, 2006.

The Corporation reserves the right (in addition to the right to issue Additional Bonds under the Indenture as described herein): (i) to issue additional Education Finance Bonds to finance and refinance Higher Education Act Eligible Loans and other student loans; (ii) to enter into financing agreements that are secured on a basis separate and apart from the Bonds and from the Education Finance Bonds in connection with its Program; (iii) to finance student loans that are newly originated or acquired by the Corporation pursuant to any financing arrangement, including the Indenture, under which funds are available therefor; and (iv) to effect the release of student loans from the lien of any financing arrangement, including the Indenture, in accordance with the terms thereof through application of amounts available therefor pursuant to any financing arrangement, including the Indenture.

The Corporation has transferred approximately \$59 million to the Commonwealth's General Fund in accordance with the requirements of the Commonwealth's approved Biennial Budget, and has additionally transferred approximately \$4.8 million to KHEAA to support programs that KHEAA administers subsequent to June 30, 2005. These transfers were funded from amounts withdrawn from trust estates securing Education Finance Bonds. The Corporation does not currently expect such transfers to have a material adverse affect upon its financial condition or upon the ability of the Trust Estate to fund the timely payment of Bond principal and interest and other payments required under the Indenture.

Availability of Eligible Loans. The Corporation expects to apply all 2006 Bond proceeds initially available to finance Eligible Loans by June 30, 2007, to finance Higher Education Act Eligible Loans and are guaranteed by KHEAA. See "SOURCES AND USES OF FUNDS", "THE GUARANTY AGENCY" and APPENDIX A – "SUMMARY OF CERTAIN PROVISIONS OF THE FEDERAL FAMILY EDUCATION LOAN PROGRAM".

Servicing of Student Loans. The Corporation currently expects to service in-house all Financed Eligible Loans. It currently services approximately \$1.5 billion outstanding principal amount of educational loans that are pledged as security for its Education Finance Bonds, the Line of Credit and the Bonds. The Corporation also services approximately \$6.3 billion of Higher Education Act Eligible Loans and other educational loans on behalf of other holders, including holders with national lending operations. In addition, the Corporation currently collects upon approximately \$180 million of Higher Education Act Eligible Loans and other educational loans for other holders on a commission basis. The Corporation expects to enter into additional servicing and collection agreements, and to increase the outstanding balance and number of student loans under existing agreements. The Corporation's servicing obligations pursuant to such servicing and collection agreements are without recourse to assets pledged to secure the 2006 Bonds. The Corporation currently subcontracts certain servicing functions. The Corporation deposits all educational loan payments upon receipt into clearing accounts with financial institutions and periodically transfers payments from such clearing accounts to the applicable holder or fiduciary.

The Corporation currently services its educational loans utilizing software purchased from IFA Systems, a division of Idaho Financial Associates, Inc. ("IFA"), which has been in the educational loan business for over 20 years. In January 2002, IFA merged with National Education Loan Network ("Nelnet"), a large national student loan asset manager headquartered in Lincoln, Nebraska. IFA now operates as a subsidiary of Nelnet. The Corporation has entered into an agreement with IFA Systems pursuant to which IFA has agreed to provide, from time-to-time, program changes to assure that the Corporation is able to comply with changes in provisions of the Higher Education Act. IFA Systems also makes certain other software changes and enhancements requested by the Corporation in its role as servicer for various types of educational loans.

The Higher Education Act requires that the Corporation and its agents and employees exercise "due diligence" in the servicing and collection of Higher Education Act Eligible Loans. The Higher Education Act defines "due diligence" to require the holders of a Higher Education Act Eligible Loan to utilize collection practices at least as extensive and forceful as those generally practiced by financial institutions for the collection of consumer loans. Federal regulations prescribe a series of actions that must be taken by a lender in the collection of delinquent (past due) Higher Education Act Eligible Loans. Additionally, those regulations set forth specific requirements that a lender or holder of Higher Education Act Eligible Loans must meet to constitute due diligence in the making, disbursing, and servicing of Higher Education Act Eligible Loans. Failure to exercise such reasonable care and diligence may result in the disqualification of an "eligible lender" (which could include the Corporation as a holder of Higher Education Act Eligible Loans) from further federal insurance payments on affected loans if the applicable guaranty agency determines that the foregoing standards have not been met. The Corporation or a lender may not relieve itself of its responsibility for meeting these standards by delegation to any servicing agent and, accordingly, if any third party servicer of the Corporation's Higher Education Act Eligible Loans fails to meet such standards, the Corporation's ability to realize the benefits of the guaranty agency's insurance payments may be adversely affected.

The Higher Education Act requires that a guaranty agency ensure that due diligence be exercised by lenders in making, servicing and collecting Higher Education Act Eligible Loans guaranteed by the guaranty agency. Each guaranty agency must establish procedures and standards for due diligence that are consistent with federal standards. If the Corporation or any third party servicer of the Corporation's Higher Education Act Eligible Loans does not comply with the due diligence standards established by the Higher Education Act and federal regulations, then the Corporation's ability to realize the benefits of guarantee payments and the guaranty agency's ability to realize the benefits of federal reinsurance payments may be adversely affected.

The Corporation retains the right to provide for administration of its Program in the most economically efficient manner, subject to its contractual obligations in connection with financings. The Indenture permits the Corporation to offer a program of borrower benefits with respect to the Financed Eligible Loans and to offer additional borrower benefits provided it obtains a Rating Confirmation.

Prior to an Event of Default, the Trustee has no duties or obligations to service or collect or monitor the servicing and collecting of student loans by the Corporation as servicer or any other subservicer. The Trustee also is not responsible for accounting and reporting functions required under the Higher Education Act to preserve the guarantee of the guarantee agency or the insurance of the Secretary on the Financed Higher Education Act Eligible Loans.

Prior to an Event of Default, the Corporation, and not the Trustee, is the custodian of the Financed Eligible Loan notes. The Trustee shall have no responsibility for loss of or damage to the Financed Eligible Loan notes held by the Corporation as the custodian or by its agents. The Corporation as custodian, and not the Trustee, is responsible for reviewing and servicing each Financed Eligible Loan and safekeeping and preserving the related documentation. The Trustee shall have no responsibility or liability for such examination, safekeeping, preserving, or servicing.

The Trustee may have certain duties relating to the foregoing matters specified in the preceding two paragraphs upon the occurrence of an Event of Default, as provided in the Indenture.

THE GUARANTY AGENCY

The Corporation expects to apply all original 2006 Bond proceeds to be initially deposited in the Loan Fund to finance Higher Education Act Eligible Loans substantially all of which are guaranteed by KHEAA with a small volume expected to be guaranteed by other guarantors under the Higher Education Act.

The Kentucky Higher Education Assistance Authority

KHEAA is a public corporation and governmental agency and instrumentality of the Commonwealth established in 1966 to serve the public purpose of improving opportunities for higher education by insuring student loans for students eligible under the Higher Education Act; providing loans, grants, and scholarship awards to qualified Kentucky students; and offering information relating to KHEAA programs to Kentucky residents.

The powers of KHEAA with respect to insuring student loans include: (i) providing loan insurance within the limitations of Kentucky law and the Higher Education Act, the loan in each case to be subject to agreements providing for interest payments, reimbursements, reinsurance and other benefits to the extent provided by the Higher Education Act; (ii) entering into agreements and undertakings with the Secretary to constitute KHEAA as a state agency qualified to insure student loans under the Higher Education Act and to qualify such student loans for interest subsidies, reimbursement, reinsurance, and other benefits available under the Higher Education Act; (iii) entering into contracts with eligible lenders and eligible education institutions to provide for the administration of student financial assistance programs; (iv) collecting from the borrower amounts due under a student loan on which KHEAA has fulfilled its insurance obligations following the inability of the holders to collect such loan; (v) approving, limiting, suspending, or terminating the eligibility of educational institutions or lenders to participate in KHEAA's Loan Guarantee Program, subject to the provisions of the Higher Education Act and applicable Kentucky law; (vi) if any conflict exists between applicable Commonwealth law and the Higher Education Act that would result in a loss by KHEAA of federal funds, adopting rules, regulations, and policies consistent with the Higher Education Act, but which are not in derogation of the Constitution and general laws of the Commonwealth; (vii) administering federal funds allotted to the Commonwealth in respect of student loans, administrative costs, and other matters; and (viii) receiving funds and acquiring property from any source, public or private, except that KHEAA has no power to make its debts payable out of any funds other than those of KHEAA.

In addition to its student loan guarantee functions, KHEAA offers origination services to lenders, administers two state grant programs, one merit scholarship program, one teacher incentive loan program, one osteopathic medicine scholarship program and the state work-study program to provide financial assistance to eligible students. Such programs are substantially funded by the Commonwealth and/or KHEAA supplemented by federal funds. Additionally, KHEAA jointly administers, and in some cases funds, an Early Childhood Development Scholarship and the state Early Childhood Development Authority; a minority teacher recruitment

scholarship and an advanced placement scholarship in conjunction with the Kentucky Department of Education; and a tuition assistance award program with the Kentucky department of Military Affairs. Additionally, KHEAA is also responsible for the Kentucky Education Savings Plan Trust (the "Trust"). The Trust offers opportunities for families to save for future college costs. Trust funds are fully segregated from all other funds managed by KHEAA. KHEAA also administers and members of the KHEAA board of directors govern as a separate entity, a prepaid tuition program, marketed under the name "Kentucky's Affordable Prepaid tuition" or "KAPT." Both the "Trust" and "KAPT" are qualified programs under Section 529 of the Internal Revenue Code.

KHEAA is governed by its Board of Directors, which may officially act by a majority of its voting members. The Board of Directors of KHEAA consists of 15 members, identical to the membership of the Corporation's Board of Directors. The Board of Directors elects from its membership a Chair, Chair-elect, and Secretary-Treasurer, identical to the officers of the Corporation's Board of Directors. The Executive Director of KHEAA is Edward J. Cunningham. Mr. Cunningham also serves as Executive Director and Chief Executive Officer of the Corporation. KHEAA's office is located at 100 Airport Road, Frankfort, Kentucky 40601, telephone number (502) 696-7200. See "THE CORPORATION—Governance and Functions".

KHEAA's Loan Guarantee Program. KHEAA guarantees student loans as the designated guaranty agency of the Commonwealth under Section 428(c) of the Higher Education Act. KHEAA is also the designated guaranty agency for the State of Alabama under Section 428(c) of the Higher Education Act. Pursuant to KHEAA's Loan Guarantee Program, any eligible holder of a loan guaranteed by KHEAA is entitled to reimbursement from KHEAA to the maximum extent permitted by the Higher Education Act for any proven loss incurred resulting from the default, death, permanent and total disability, or discharge in bankruptcy of the borrower and with respect to certain other claims. At the time KHEAA pays a claim for reimbursement of a defaulted loan, the holder must assign to KHEAA all rights accruing to the holder under the note.

Federal Student Loan Reserve Fund ("FSLRF"). KHEAA has established a FSLRF, a federal fiduciary fund used to account for all loan related activities. The FSLRF was established on October 1, 1998, under the Higher Education Amendments of 1998. As of September 30, 2005, the unaudited balance in the FSLRF was \$6,710,520. Sources of funds for the FSLRF include: (i) insurance premiums for loans guaranteed; (ii) reinsurance from the Secretary for default and other claims paid; (iii) default collection compliment; and (iv) and investment income derived from such funds. The FSLRF is used for default and other claims on loans guaranteed, and to pay default aversion fees.

Agency Operating Fund ("AOF"). KHEAA has established an AOF, an operating fund used to account for all administration of loan related activities. The AOF was established on October 1, 1998, under the Higher Education Amendments of 1998. As of September 30, 2005, the unaudited balance in the AOF was \$28,580,552. Sources of funds for the AOF include: (i) federal account maintenance fees and loan processing and issuance fees; (ii) default aversion fees; (iii) default collections; (iv) and investment income derived from such funds. Uses of funds are operating expenses and transfers to the governmental fund for administration of student aid and outreach programs.

KHEAA is authorized to issue loan guarantees to eligible lenders on any loans to qualified students. Funds available in the Loan Insurance Fund are calculated on the basis of the net assets before deducting unearned insurance premiums, which equals the fund balance plus unearned insurance premiums. Funds available in the Loan Insurance Fund are restricted by federal regulations and the Higher Education Act.

Pursuant to the 1997 Amendments, KHEAA paid approximately \$14 million (its proportionate share of guarantee agency reserves to be paid for federal deficit reduction) to the Secretary on September 1, 2002. The 1998 Amendments also require smaller proportionate reserve returns in 2002, 2006 and 2007. On July 11, 2002, the Secretary notified KHEAA that its share of the reserve returns in 2002, 2006 and 2007 would be approximately \$3.5 million. KHEAA paid \$1 million towards its share of the reserve returns on September 1, 2002. See APPENDIX A, "SUMMARY OF CERTAIN PROVISIONS OF THE FEDERAL FAMILY EDUCATION LOAN PROGRAM—Federal Insurance and Reinsurance and Reimbursement of Guaranty Agencies".

The following table summarizes the student loans guaranteed by KHEAA (and reinsured by the Secretary) annually, the aggregate outstanding guarantee commitment for the periods indicated, and KHEAA's Claims Rate for purposes of reinsurance. The Coverage Ratio set forth below is determined by dividing the funds available in the Loan Insurance Fund by the principal amount of the aggregate outstanding guarantee commitment.

Fiscal Year Ended <u>June 30</u>	Annual Principal Amount of <u>Loans Guaranteed</u>	Aggregate Principal Guarantee <u>Commitment</u>	Coverage <u>Ratio</u>	Claims <u>Rate*</u>
2001	542,872,356	1,947,932,104	1.35	1.62
2002	662,753,138	2,336,677,000	0.84	1.73
2003	787,887,900	2,602,904,617	0.63	2.28
2004	960,906,210	2,908,356,000	0.44	1.68
2005	1,197,075,689	3,338,746,000	.25	2.18

*At federal fiscal year ending September 30.

No Pledge of KHEAA's Funds and Assets. The funds and assets of KHEAA are not pledged to or available for payment of the Bonds. Funding of KHEAA's operations is subject to authorization by the General Assembly of the Commonwealth.

CONTINUING DISCLOSURE

General

In accordance with the requirements of Rule 15c2-12 (the "Rule") promulgated by the Securities and Exchange Commission (the "SEC"), the Corporation will enter into a continuing disclosure undertaking (the "Continuing Disclosure Agreement") with the Trustee for the 2006 Bonds, which shall constitute a written undertaking for the benefit of the respective owners of such Bonds, solely to assist the Underwriter in complying with subsection (b)(5) of the Rule.

The Corporation will agree in the Continuing Disclosure Agreement to provide to the Trustee, which shall provide within 5 Business Days after receipt thereof, each nationally recognized municipal securities information repository and any public or private repository or entity designated by the Commonwealth as a state repository for purposes of subsection (b)(5) of the Rule (each, a "Repository"), annual financial information and operating data (the "Annual Financial Information") relating to it and any Additional Obligated Persons (defined below) covering the matters described under "Annual Financial Information" below. The Corporation will also agree to provide to each Repository, in a timely manner, notice of any of the events ("Event Notice") if determined by the Corporation to be material, as described under "Event Notices" below. The Corporation may satisfy its obligation to file such information with a Repository by filing the same with an entity assuming or charged with responsibility for accepting such filings for transmission to such Repository, to the extent permitted by the SEC or SEC staff or required by the SEC. Any filings made under the Continuing Disclosure Agreement may be made solely by transmitting such filing to the Texas Municipal Advisory Council (the "MAC") as provided at www.disclosureusa.org unless the United States Securities and Exchange Commission has withdrawn the interpretive advice in its letter to the MAC dated September 7, 2004.

With the exception of the Annual Financial Information for the periods ending June 30, 2004 and June 30, 2005, each of which was filed within 31 days after the date due under the applicable Continuing Disclosure Agreements, the Corporation has never failed to comply in all material respects with any previous undertakings with regard to said Rule to provide Annual Financial Information or notices of material events. The on-going disclosure obligations of the Corporation shall terminate upon the full payment, prior redemption or legal defeasance of the 2006 Bonds, or with respect to any Additional Obligated Person, at the time that the party no longer meets the definition of Additional Obligated Person.

The Corporation may appoint or engage a dissemination agent to assist in carrying out its obligations under the Continuing Disclosure Agreement.

The Corporation may amend the Continuing Disclosure Agreement, and waive any provision thereof, by written agreement of the parties, without the consent of the respective owners of the applicable Series of 2006 Bonds (except to the extent required under clause (4)(ii) below) if all of the following conditions are satisfied: (1) such amendment is made in connection with a change in circumstances that arises from a change in legal (including regulatory) requirements, a change in law (including rules or regulations) or in interpretations thereof, or a change in the identity, nature or status of the Corporation or any Additional Obligated Person or the type of business conducted thereby; (2) the applicable Continuing Disclosure Agreement as so amended would have complied with the requirements of the Rule as of the date of the Continuing Disclosure Agreement, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; (3) the Corporation shall have delivered to the Trustee an opinion of nationally recognized bond counsel or counsel expert in federal securities laws, addressed to the Corporation and the Trustee, to the same effect as set forth in clause (2) above; (4) either (i) the Corporation shall have delivered to the Trustee an opinion of nationally recognized bond counsel or counsel expert in federal securities laws, addressed to the Corporation and the Trustee, to the effect that the amendment does not materially impair the interests of the respective holders of the applicable Series of 2006 Bonds, or (ii) the holders of the 2006 Bonds consent to the amendment to the Continuing Disclosure Agreement pursuant to the same procedures as are required for amendments to the Indenture with consent of the respective holders of the applicable Series of 2006 Bonds pursuant to the terms of the Indenture as in effect on the date of such Continuing Disclosure Agreement; and (5) the Corporation shall have delivered copies of such opinion and amendment to each Repository.

In the event of default by the Corporation of its obligations under the Continuing Disclosure Agreement to provide continuing disclosure, the Beneficial Owners of the 2006 Bonds and the Trustee on behalf of such owners may take action to compel compliance, provided that any enforcement action by any such person shall be limited to a right to obtain specific enforcement of the Corporation's obligations under the Continuing Disclosure Agreement. No such default under the Continuing Disclosure Agreement shall constitute an Event of Default under the Indenture.

Annual Financial Information

The Corporation will provide Annual Financial Information for the Corporation and any Additional Obligated Person within 270 days of the end of such party's fiscal year (the "Reporting Date"), beginning with the fiscal year in each case ending on or after July 1, 2006. Such Annual Financial Information shall consist of the following information:

- (I) Annual audited financial statements for the Corporation and for any Additional Obligated Person prepared in accordance with generally accepted accounting principles.
- (II) An update of the tabular information presented under the heading "THE CORPORATION" and the heading "THE GUARANTY AGENCY" in this Official Statement.

If the audited financial statements for the Corporation or the Additional Obligated Person, as the case may be, are not available by the Reporting Date, unaudited financial statements of the Corporation or an Additional Obligated Person, as the case may be, are to be provided as part of the applicable Annual Financial Information and audited financial statements for the Corporation or an Additional Obligated Person, as the case may be, when and if available, will be provided to the Trustee and each Repository. If the fiscal year of the Corporation or an Additional Obligated Person, as the case may be, changes, the Corporation or an Additional Obligated Person, as the case may be, shall give notice of such change in the same manner and time as an Event Notice.

Event Notice

In addition to the Annual Financial Information described above, the Corporation will also agree to provide an Event Notice upon the happening of and with respect to any of the following events, if material, with respect to the applicable series of 2006 Bonds:

- (1) Principal and interest payment delinquencies;
- (2) Nonpayment related defaults;
- (3) Unscheduled draws on the debt service reserves reflecting financial difficulties;
- (4) Unscheduled draws on credit enhancements reflecting financial difficulties;
- (5) Substitution of credit or liquidity providers, or their failure to perform;
- (6) Adverse tax opinions or events adversely affecting the tax exempt status of the Series 2006 Tax-Exempt Bonds;
- (7) Modifications to rights of owners of the 2006 Bonds;
- (8) Calls of the 2006 Bonds;
- (9) Defeasances of the 2006 Bonds;
- (10) Release, substitution or sale of assets securing repayment of the 2006 Bonds; and
- (11) Rating changes.

Definitions

“Additional Obligated Person” means, prior to receipt by the Trustee of a Negative Opinion or the issuance of a written interpretation by the Staff of the SEC, any Guarantor that is guaranteeing student loans having an aggregate principal amount of at least 20% of the aggregate principal amount of all student loans.

“Negative Opinion” means an opinion with respect to a person or entity that is issued by a nationally recognized bond counsel firm or counsel expert in federal securities laws, which counsel and opinion are in form and substance acceptable to the Corporation, to the effect that such person or entity does not constitute an “obligated person” with respect to the 2006 Bonds within the meaning of the Rule.

Repository

A listing of active NRMSIR’s and contact information for each such NRMSIR is currently made available by the SEC on its website at <<http://www.sec.gov/info/municipal/nrmsir.htm>>. The following are the current repositories for the purposes of the continuing disclosure required under each Continuing Disclosure Agreement:

Bloomberg Municipal Repository
 100 Business Park Drive
 Skillman, NJ 08558
 Phone: (609) 279-3225
 Fax: (609) 279-5962
<http://www.bloomberg.com/markets/rates/municontracts.html>
 E-Mail: Munis@Bloomberg.com

Standard & Poor’s Securities Evaluations, Inc.
 55 Water Street, 45th Floor
 New York, New York 10041
 Phone: (212) 438-4595
 Fax: (212) 438-3975
www.jjkenny.com/jjkenny/pser_descrip_data_rep.html
 E-Mail Address: nrmsir_repository@sandp.com

DPC Data Inc.
 One Executive Drive
 Fort Lee, NJ 07024
 Phone: (201) 346-0701
 Fax: (201) 947-0107
<http://www.dpcdata.com>
 E-Mail: nrmsir@dpcdata.com

FT Interactive Data
 Attn: NRMSIR
 100 William Street, 15th Floor
 New York, New York 10038
 Phone: (212) 771-6999
 Fax: (212) 771-7390 (Secondary Market Information)
 (212) 771-7391 (Primary Market Information)
<http://www.ftid.com>
 E-Mail: nrmsir@interactivedata.com

TAX MATTERS

Senior Series 2006A-1 Bonds and Subordinate Series 2006B Bonds

Opinion of Bond Counsel. In the opinion of Hawkins Delafield & Wood LLP, Bond Counsel to the Corporation, under existing statutes and court decisions and assuming the accuracy of certain representations and continuing compliance with certain covenants, (i) interest on the Senior Series 2006A-1 Bonds and the Subordinate Series 2006B-1 Bonds (collectively, the "Series 2006 Tax-Exempt Bonds") is excluded from gross income for federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and (ii) interest on the Series 2006 Tax-Exempt Bonds, however, is treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code. In rendering its opinion, Bond Counsel has relied on certain representations, certifications of fact, and statements of reasonable expectations made by the Corporation in connection with the Series 2006 Tax-Exempt Bonds, and Bond Counsel has assumed compliance by the Corporation with certain ongoing covenants to comply with applicable requirements of the Code to assure the exclusion of interest on the Series 2006 Tax-Exempt Bonds from gross income under Section 103 of the Code.

In addition, in the opinion of Bond Counsel, under existing statutes, the Series 2006 Tax-Exempt Bonds and the income thereon and the transfer thereof, including any profit made on the sale thereof, shall at all times be exempt from taxation or assessment of any type by the Commonwealth of Kentucky, its agencies and departments and by all political subdivisions within the Commonwealth of Kentucky.

Bond Counsel expresses no opinion regarding any other federal or state tax consequences with respect to the Series 2006 Tax-Exempt Bonds. Bond Counsel renders its opinion under existing statutes and court decisions as of the issue date, and assumes no obligation to update its opinion after the issue date to reflect any future action, fact or circumstance, or change in law or interpretation, or otherwise. Bond Counsel expresses no opinion on the effect of any action hereafter taken or not taken in reliance upon an opinion of other counsel on the exclusion from gross income for federal income tax purposes of interest on the Series 2006 Tax-Exempt Bonds, or under state and local tax law.

Certain Ongoing Federal Tax Requirements and Covenants. The Code establishes certain ongoing requirements that must be met subsequent to the issuance and delivery of the Series 2006 Tax-Exempt Bonds in order that interest on the Series 2006 Tax-Exempt Bonds be and remain excluded from gross income under Section 103 of the Code. These requirements include, but are not limited to, requirements relating to use and expenditure of gross proceeds of the Series 2006 Tax-Exempt Bonds, yield and other restrictions on investments of gross proceeds, and the arbitrage rebate requirement that certain excess earnings on gross proceeds be rebated to the federal government. Noncompliance with such requirements may cause interest on the Bonds to become included in gross income for federal income tax purposes retroactive to their issue date, irrespective of the date on which such noncompliance occurs or is discovered. The Corporation has covenanted to comply with certain applicable requirements of the Code to assure the exclusion of interest on the Series 2006 Tax-Exempt Bonds from gross income under Section 103 of the Code.

Certain Collateral Federal Tax Consequences. The following is a brief discussion of certain collateral federal income tax matters with respect to the Series 2006 Tax-Exempt Bonds. It does not purport to address all aspects of federal taxation that may be relevant to a particular owner of a Series 2006 Tax-Exempt Bond. Prospective investors, particularly those who may be subject to special rules, are advised to consult their own tax advisors regarding the federal tax consequences of owning and disposing of the Series 2006 Tax-Exempt Bonds.

Prospective owners of the Series 2006 Tax-Exempt Bonds should be aware that the ownership of such obligations may result in collateral federal income tax consequences to various categories of persons, such as corporations (including S corporations and foreign corporations), financial institutions, property and casualty and life insurance companies, individual recipients of Social Security and railroad retirement benefits, individuals otherwise eligible for the earned income tax credit, and taxpayers deemed to have incurred or continued indebtedness to purchase or carry obligations the interest on which is excluded from gross income for federal

income tax purposes. Interest on the Series 2006 Tax-Exempt Bonds may be taken into account in determining the tax liability of foreign corporations subject to the branch profits tax imposed by Section 884 of the Code.

Legislation. Legislation affecting municipal bonds is regularly under consideration by the United States Congress. There can be no assurance that legislation enacted or proposed after the date of issuance of the Series 2006 Tax-Exempt Bonds will not have an adverse effect on the tax exempt status or market price of the Series 2006 Tax-Exempt Bonds.

Senior Series 2006A-2 Bonds, Senior Series 2006A-3 Bonds, Senior Series 2006A-4 Bonds and Senior Series 2006A-5 Bonds.

General. In the opinion of Bond Counsel, the Senior Series 2006A-2 Bonds, the Senior Series 2006A-3 Bonds, the Senior Series 2006A-4 Bonds and the Senior Series 2006A-5 Bonds (collectively, the “Series 2006 Taxable Bonds”) constitute debt of the Corporation for federal income tax purposes and interest on the Series 2006 Taxable Bonds is included in gross income for federal income tax purposes pursuant to the Code.

The following discussion is a brief summary of certain United States federal income tax consequences of the acquisition, ownership and disposition of Series 2006 Taxable Bonds by original purchasers of the Series 2006 Taxable Bonds who are “U.S. Holders”, as defined herein. This summary does not discuss all of the United States federal income tax consequences that may be relevant to a holder in light of its particular circumstances or to holders subject to special rules.

Holders of Series 2006 Taxable Bonds should consult with their own tax advisors concerning the United States federal income tax and other consequences with respect to the acquisition, ownership and disposition of the Series 2006 Taxable Bonds, as well as any tax consequences that may arise under the laws of any state, local or foreign tax jurisdiction.

Disposition and Defeasance. Generally, upon the sale, exchange, redemption, or other disposition (which would include a legal defeasance) of a Series 2006 Taxable Bonds, a U.S. Holder generally will recognize taxable gain or loss in an amount equal to the difference between the amount realized (other than amounts attributable to accrued interest not previously includable in income) and such holder’s adjusted tax basis in the Series 2006 Taxable Bond. The Corporation may cause the deposit of moneys or securities in escrow in such amount and manner as to cause the Series 2006 Taxable Bonds to be deemed to be no longer Outstanding under the Indenture (a “defeasance”). See “APPENDIX B — SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE — Defeasance”. For federal income tax purposes, such defeasance could result in a deemed exchange under Section 1001 of the Code and a recognition by such U.S. Holder of taxable income or loss, without any corresponding receipt of moneys. In addition, the character and timing of receipt of payments on the Series 2006 Taxable Bonds subsequent to any such defeasance could also be affected.

Backup Withholding and Information Reporting. In general, information reporting requirements will apply to non-corporate U.S. Holders with respect to payments of principal, payments of interest and the proceeds of the sale of a Series 2006 Taxable Bond before maturity within the United States. Backup withholding may apply to U.S. Holders of Series 2006 Taxable Bonds under Section 3406 of the Code. Any amounts withheld under the backup withholding rules from a payment to a U.S. Holder, and which constitutes over-withholding, would be allowed as a refund or a credit against such U.S. Holder’s United States federal income tax provided the required information is furnished to the Internal Revenue Service.

U.S. Holders. The term “U.S. Holder” means a beneficial owner of a Series 2006 Taxable Bond that is: (i) a citizen or resident of the United States; (ii) a corporation, partnership or other entity created or organized in or under the laws of the United States or of any political subdivision thereof; (iii) an estate the income of which is subject to United States federal income taxation regardless of its source; or (iv) a trust whose administration is subject to the primary jurisdiction of a United States court and which has one or more United States fiduciaries who have the authority to control all substantial decisions of the trust.

IRS CIRCULAR 230 DISCLOSURE. The statements under the caption, “GENERAL TAX CONSIDERATIONS — Certain Federal Income Tax Considerations”, concerning certain income tax consequences of the acquisition, ownership and disposition of the Series 2006 Taxable Bonds, were written to support the marketing of the Series 2006 Taxable Bonds. To ensure compliance with requirements imposed by the Internal Revenue Service, Bond Counsel informs you that: (i) any federal tax advice contained in this Official Statement (including any attachments) or in writings furnished by Bond Counsel is not intended to be used, and cannot be used by any Owner, for the purpose of avoiding penalties that may be imposed on the Owner under the Code; and (ii) the Owner should seek advice based on the Owner’s particular circumstances from an independent tax advisor.

LEGALITY FOR INVESTMENT

Subject to any federal requirements or other applicable limitations, the statutes of the Commonwealth provide that obligations of the Corporation such as the 2006 Bonds are securities in which all public officers and public bodies of the Commonwealth and its political subdivisions all insurance companies, trust companies, banking associations, investment companies, executors, administrators, trustees and other fiduciaries may properly and legally invest funds, including capital in their control or belonging to them.

ABSENCE OF MATERIAL LITIGATION

There is no controversy or litigation of any nature pending or threatened to restrain or enjoin issuance, sale, execution or delivery of the 2006 Bonds, or in any way contesting or affecting the validity of the 2006 Bonds, any proceedings of the Corporation taken with respect to the issuance or sale thereof; and as of the date hereof, there is no litigation pending, or threatened that would materially adversely affect the pledge or application of any moneys or security provided for the payment of the 2006 Bonds or the powers of the Corporation.

APPROVAL OF LEGALITY

Certain legal matters in connection with the 2006 Bonds are to be passed upon by Hawkins Delafield & Wood LLP, Bond Counsel. Certain legal matters are to be passed upon for the Underwriter by its counsel, Krieg DeVault LLP. The opinions of Bond Counsel to the Corporation to be delivered on the respective Dates of Issuance of the 2006 Bonds are substantially in the applicable forms attached to this Official Statement as Appendix D and Appendix E.

RATINGS

Standard and Poor's Ratings Service is expected to assign its municipal bond rating of "AAA" to the Series 2006A Bonds and "A" to the Series 2006B-1 Bonds. Fitch, Inc. is expected to assign its municipal bond rating of "AAA" to the Series 2006A Bonds and "A" to the Series 2006B-1 Bonds. Such ratings reflect only the view of the respective Rating Agency and an explanation of the significance of such ratings can only be obtained from the respective Rating Agency. There is no assurance that such ratings will be continued for any given period of time or that they will not be revised downward or withdrawn entirely if, in the judgment of the respective Rating Agency, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect upon the market price or the marketability of the 2006 Bonds. The Rating Agencies do not evaluate, and the ratings on the 2006 Bonds do not address, the likelihood of payment of any Carry-Over Amounts.

UNDERWRITING

The 2006 Bonds will be purchased by UBS Securities LLC at a purchase price equal to \$349,142,500, which is equal to the aggregate face amount of the 2006 Bonds less an underwriting discount of \$857,500.

INDEPENDENT ACCOUNTANTS

The Corporation's financial statements as of June 30, 2005 and for the year then ended, included in this Official Statement, have been audited by Strothman & Company, PSC, independent accountants, as stated in their report appearing in APPENDIX C hereto.

MISCELLANEOUS

Since the 2006 Bonds are special and limited obligations of the Corporation, secured by and payable solely from specific revenues, funds and assets of the Corporation pledged under the Indenture, the overall financial status of the Corporation does not indicate and does not necessarily affect whether such revenues and other amounts will be available under the Indenture to pay the principal of and interest on the 2006 Bonds. The Corporation is not obligated to pay any amounts in respect of principal and/or interest on the 2006 Bonds from any moneys legally available to the Corporation for its general purposes other than those expressly pledged.

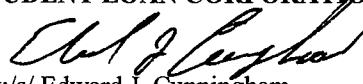
The information set forth in this Official Statement relating to the Corporation and KHEAA was obtained from the records of the Corporation and KHEAA and from other sources considered reliable.

All quotations from, and summaries and explanations of, the Higher Education Act, the Corporation Act and the Indenture contained herein do not purport to be complete and reference is made to such laws and documents for full and complete statements of their provisions. The Appendices attached hereto are part of this Official Statement. Copies of the Corporation Act and the Indenture may be obtained upon written request directed to the Corporation, P.O. Box 24266, Louisville, Kentucky 40224-0266.

Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact.

This Official Statement is not to be construed as a contract or agreement between the Corporation and the purchasers or owners of any Bonds.

**KENTUCKY HIGHER EDUCATION
STUDENT LOAN CORPORATION**



By: /s/ Edward J. Cunningham

Edward J. Cunningham, Executive Director
and Chief Executive Officer

SUMMARY OF CERTAIN PROVISIONS OF THE FEDERAL FAMILY EDUCATION LOAN PROGRAM

Title IV of the Higher Education Act provides for the FFEL Program pursuant to which FFELP Loans are made to students, former students and parents of dependent students, which loans are: (i) guaranteed by a state agency or private non-profit corporation and reinsured by the federal government; or (ii) directly insured by the federal government. Several types of FFELP Loans are currently authorized under the FFEL Program: (i) fully subsidized loans to students who demonstrate need on the basis of certain tests, currently known as Federal Stafford Loans ("Subsidized Stafford Loans"); (ii) generally similar loans to students who do not pass such need tests, currently known as Federal Unsubsidized Stafford Loans ("Unsubsidized Stafford Loans" and, collectively with Subsidized Stafford Loans, "Stafford Loans"); (iii) loans to borrowers who may include, effective July 1, 2006, graduate or professional students as well as parents of dependent students, currently known as Federal PLUS Loans ("PLUS Loans"); and (iv) loans to consolidate the borrower's obligations under various federally authorized student loan programs into a single loan, currently known as Federal Consolidation Loans ("FFEL Consolidation Loans"). The principal federal benefits which the FFEL Program provides to holders of loans originated thereunder are: (i) federal insurance by the federal Department of Education (the "Department") or federal reinsurance by the Department of guarantees provided by guaranty agencies; (ii) federal interest subsidy payments to holders of certain loans in lieu of borrower payments during certain periods defined by borrower status ("Interest Subsidy Payments"); and (iii) federal special allowance payments to holders of certain loans during certain periods defined by interest rate levels ("Special Allowance Payments"). See "*Interest Subsidy Payments on Subsidized Stafford Loans*," "*Special Allowance Payments*" and "*Federal Insurance and Reinsurance and Reimbursement of Guaranty Agencies*."

This summary of the FFEL Program and the Federal Direct Student Loan Program (the "FDSL Program") as established by the Higher Education Act generally describes certain elements of such programs applicable from July 1, 1998 to the date of this Official Statement, does not purport to be comprehensive or definitive and is qualified in its entirety by reference to the Higher Education Act and the regulations thereunder. No assurance can be given that FFELP Loans which may be financed by the Corporation through the application of Bond proceeds in the future will have terms and conditions, or will be subject to federal requirements, identical with those applicable as of the date of this Official Statement. See "*Legislative and Administrative Matters*."

Legislative and Administrative Matters

The FFEL Program and the FDSL Program under Title IV of the Higher Education Act are subject to periodic legislative reauthorization. Authorization for the continuation of these programs was most recently extended through operation of the Higher Education Reconciliation Act of 2005 (the "2005 Amendments"). Origination of the new FFELP Loans is currently authorized to September 30, 2012 or, with respect to additional FFELP Loans to existing borrowers for purposes other than consolidation, to September 30, 2016. No assurance can be given that relevant federal laws, including the Higher Education Act, or regulations, will not be changed in the future in a manner that might adversely affect the Trust Assets. Both Title IV of the Higher Education Act and the regulations promulgated thereunder have been the subject of frequent and extensive amendments in recent years and there can be no assurance that further amendment will not materially change the provisions described herein or the effect thereof. In addition, the operation of the FFEL Program has recently been, and may be, affected by proposed and enacted federal budgetary and tax legislation. Recent legislation substantially affecting the FFEL Program includes: (i) the Balanced Budget Act of 1997; (ii) the Emergency Student Loan Consolidation Act of 1997; (iii) the Intermodal Surface Transportation Efficiency Act of 1998 (the "1998 Transportation Act"); (iv) the Higher Education Amendments of 1998 (the "1998 Amendments"); (v) the Ticket to Work and Work Incentives Improvement Act of 1999 (the "1999 Amendments"); (vi) the 2002 Amendments to the Higher Education Act (the "2002 Amendments"); (vii) the Servicemembers Civil Relief Act of 2003 (the "2003 Civil Relief Act"); (viii) the 2005 Amendments; and (ix) the Emergency Supplemental Appropriations Act for Defense, the Global War on Terror and Hurricane Recovery, 2006 (the "2006 Amendments").

The 1998 Transportation Act changed the previously applicable interest rate and Special Allowance Payment formulas for Stafford Loans and PLUS Loans disbursed during the period from July 1, 1998 through September 30, 1998. Stafford Loans originated during this period bear interest, during in-school grace and deferment periods, at the average bond equivalent rate of 91-Day Treasury bills (the "91-Day T-Bill Rate") plus 1.7 percent, with a maximum rate of 8.25 percent, and otherwise bear interest at a rate equivalent to the 91-Day T-Bill Rate plus 2.3 percent, with a maximum rate of 8.25 percent. PLUS Loans disbursed during this period bear interest at a rate equivalent to the 91-Day T-Bill Rate plus 3.1 percent, with a maximum rate of 9 percent. In addition, holders of such Stafford Loans are entitled to receive Special Allowance Payments, during in-school and grace periods, based upon the 91-Day T-Bill Rate plus 2.2 percent and, otherwise, based upon the 91-Day T-Bill Rate plus 2.8 percent. Holders of such PLUS Loans are entitled to receive Special Allowance Payments, when the 9 percent maximum rate applies, based upon the 91-Day T-Bill Rate plus 3.1 percent.

Under the 1998 Amendments, Stafford Loans disbursed during the period from October 1, 1998 through June 30, 2003 bear interest, during in-school, grace and deferment periods, at a rate equivalent to the 91-Day T-Bill Rate plus 1.7 percent, with a maximum rate of 8.25 percent, and otherwise bear interest at a rate equivalent to the 91-Day T-Bill Rate plus 2.3 percent, with a maximum rate of 8.25 percent. PLUS Loans disbursed during this period bear interest at a rate equivalent to the 91-Day T-Bill Rate plus 3.1 percent, with a maximum rate of 9 percent. FFEL Consolidation Loans disbursed during this period bear interest at a rate equal to the weighted average of the loans consolidated, rounded to the nearest higher one-eighth of 1 percent, with a maximum rate of 8.25 percent. In addition, holders of Stafford Loans disbursed during the period from October 1, 1998 through June 30, 2003 are entitled to receive Special Allowance Payments, during in-school and grace periods, based upon the 91-Day T-Bill Rate plus 2.2 percent and, otherwise, based upon the 91-Day T-Bill Rate plus 2.8 percent. Holders of PLUS and FFEL Consolidation Loans disbursed during this period are entitled to receive Special Allowance Payments, when the applicable maximum rates apply, based upon the 91-Day T-Bill Rate plus 3.1 percent.

Under the 1999 Amendments: (i) holders of Stafford Loans disbursed during the period from January 1, 2000 through June 30, 2003 are entitled to receive Special Allowance Payments, during in-school, grace and deferment periods, based upon the average of the bond equivalent rates of the 3-month commercial Paper (Financial) rate as reported by the Federal Reserve (the "CP Rate") plus 1.74 percent and, otherwise, based upon the CP Rate plus 2.34 percent; and (ii) holders of PLUS and FFEL Consolidation Loans disbursed during this period are entitled, when maximum rates apply, to receive Special Allowance Payments based upon the CP Rate plus 2.64 percent.

Under the 2002 Amendments, the pre-existing interest rate and Special Allowance Payment formulas established by the 1999 Amendments were extended with respect to Stafford Loans and PLUS Loans to loans disbursed by June 30, 2006, and with respect to FFEL Consolidation Loans for which an application is received by an eligible lender by June 30, 2006. Interest rates for FFELP Loans pursuant to the 2005 Amendments, however, are: (i) a fixed rate of 6.8 percent, with respect to Stafford Loans disbursed on or after July 1, 2006; (ii) a fixed rate of 8.5 percent, with respect to PLUS Loans disbursed on or after July 1, 2006; and (iii) a fixed rate equal to the lesser of (A) the weighted average of the interest rates on the loans consolidated, rounded up to the nearest higher one-eighth of one percent or (B) 8.25 percent, with respect to FFEL Consolidation Loans for which an application is received by an eligible lender on or after July 1, 2006. The 2005 Amendments also modified the provisions addressing Special Allowance Payments, applicable to FFELP Loans that are first disbursed and to Special Allowance Payments made on and after April 1, 2006. See "*Special Allowance Payments*" below. The 2005 Amendments modified a number of other Higher Education Act provisions affecting the FFEL Program. In addition, the 2006 Amendments eliminated certain restrictions upon the origination of FFEL Consolidation Loans and similar FDSL Program Loans that had benefited holders of FFELP Loans that are eligible for consolidation. See "*The Consolidation Loan Program*" and "*The Federal Direct Student Loan Program*." Certain of these provisions are described herein.

The 2003 Civil Relief Act replaced and clarified certain benefits extended to military persons under the Soldiers' and Sailors' Civil Relief Act of 1940, providing relief to borrowers who enter active military service and to borrowers in reserve status who are called to active duty after the origination of their student loans. The Civil Relief Act provides that persons on active duty in military service who have incurred loans prior to their period of active duty may request to have the interest on their loans in excess of 6% per year forgiven under certain circumstances. The Higher Education Relief Opportunities for Students Act of 2003, as amended, authorizes the Secretary, during the period ending September 30, 2007, to waive or modify any statutory or regulatory provisions applicable to

student financial aid programs under Title IV of the Higher Education Act as the Secretary deems necessary under certain circumstances for the benefit of borrowers serving on active military duty; however, the Secretary has yet to use this authority to provide specific relief to servicepersons with loan obligations who are called to active duty. In addition, the 2005 Amendments provided FFELP Loan payment deferments of up to three years, for loans first disbursed beginning July 1, 2001, during which the borrower is serving on active duty as a member of the United States armed services or National Guard during a war, certain military operations or certain national emergencies. Congress has periodically adopted similar legislation, and may consider additional legislation, that provides for, among other things, interest rate caps and additional periods of deferment with respect to Loans made to members of the military, including reservists. There can be no assurance that additional legislation of this type will not be adopted in the future. Accordingly, payments received by the Corporation on a FFELP Loan to a borrower who qualifies for such relief may be subject to limitations during the borrower's period of qualifying military or other public service. The number and aggregate principal balances of Loans within the Trust Estate that may be affected by the application of such legislation cannot be determined at this time.

Eligible Borrowers and Institutions

FFELP Loans may only be made to Qualified Students and parents of dependent Qualified Students or to consolidate obligations under various federally authorized student loan programs. A "Qualified Student" is generally defined as a citizen, national or permanent resident of the United States or person otherwise eligible individual under federal regulations who: (i) has been accepted for enrollment or is enrolled and is maintaining satisfactory progress in a program leading to a recognized educational credential at an eligible institution; (ii) is carrying at least one-half of the normal full-time academic workload for the course of study the student is pursuing, as determined by such institution; (iii) meets the "need" requirements, if applicable, for the particular FFEL Program; and (iv) is not otherwise ineligible under the Higher Education Act. FFELP Loans are unsecured loans, which may be documented, and in which a security interest may be perfected, only as provided in the Higher Education Act.

Eligible institutions include institutions of higher education, postsecondary vocational institutions, proprietary institutions of higher education, and institutions outside of the United States which are approved by the Secretary. Eligible institutions of higher education must meet certain standards, which generally provide that the institution: (i) only admits persons as regular students who have a high school diploma or its equivalent, or persons who are beyond the age of compulsory school attendance; (ii) is legally authorized to provide a program of postsecondary education within a State; (iii) provides a program for which it awards an associate, baccalaureate, graduate or professional degree, a program of not less than two years acceptable for full credit toward a baccalaureate degree or a program of not less than one year to prepare students for gainful employment in a recognized occupation; (iv) is a public or non-profit institution; and (v) is accredited or otherwise governmentally approved. Eligible postsecondary vocational institutions include educational institutions which provide an eligible program of training to prepare students for gainful employment in a recognized occupation, which otherwise comply with the standards applicable to institutions of higher education and which have been in existence for at least two years. Eligible proprietary institutions of higher education include schools, other than public or non-profit institutions, which provide an eligible program of training to prepare students for gainful employment in a recognized occupation, which otherwise comply with the standards applicable to institutions of higher education, which have been in existence for at least two years and which receive at least 10 percent of revenues from sources other than specified federal programs, including the FFEL Program. With certain exceptions, an institution with a cohort default rate that is higher over a period of time than 25 percent is not an eligible institution. An institution's cohort default rate is generally based on the percentage of its current and former students who default on their Stafford Loans within a specified period of time after entering repayment.

With specified exceptions, institutions are excluded from participation as eligible institutions if the institution: (i) offers more than 50 percent of its courses by correspondence (excluding certain courses offered by telecommunications); (ii) enrolls 50 percent or more of its students in correspondence courses (excluding certain courses offered by telecommunications); (iii) has a student enrollment in which more than 25 percent of the students are incarcerated; (iv) has a student enrollment in which more than 50 percent of the students are admitted without a high school diploma or its equivalent; or (v) has filed for bankruptcy, or if the owner, or its chief executive officer, has been convicted or pled *nolo contendere* or guilty to a crime involving the acquisition, use or expenditure of

federal student aid funds, or has been judicially determined to have committed fraud involving funds under the student aid program.

Financial Need Analysis

FFELP Loans may generally be made in amounts, subject to certain limits and conditions, to cover the student's estimated costs of attendance, including tuition and fees, books, supplies, room and board, transportation and miscellaneous personal expenses, including personal computer costs (as determined by the institution) ("Cost of Attendance"). Each Subsidized Stafford Loan borrower must complete a need analysis, which requires the borrower to submit information to a multiple data entry processor, which forwards the information to a federal central processor. The central processor evaluates the parents' and student's financial condition under federal guidelines and calculates the amount that the student and/or the family must contribute towards the student's cost of education (the "Expected Family Contribution"). The institution then subtracts the Expected Family Contribution from its Costs of Attendance to determine the student's eligibility for federal assistance (the "Unmet Need"). Subject to certain annual and aggregate borrower specific limits, Subsidized Stafford Loans are generally available for an academic period to fund the difference between a borrower's Unmet Need for such period and the estimated financial assistance to be received by the student from sources other than FFELP Loans and FDSL Loans ("Estimated Financial Assistance") for such period. In addition, subject to separate annual and aggregate borrower specific limits, Unsubsidized Stafford Loans and PLUS Loans are generally available for an academic period to fund the difference between a student's Cost of Attendance for such period and the aggregate amount of Estimated Financial Assistance and of Subsidized Stafford Loans to be received by the student for such period. Provisions addressing the implementation of need analysis and the relationship between Unmet Need for financing and the availability of Subsidized Stafford Loan funding have been the subject of frequent and extensive amendments in recent years. There can be no assurance that further amendments to such provisions will not materially affect the availability of Subsidized Stafford Loan funding to borrowers or the availability of Subsidized Stafford Loans for secondary market acquisition. See "*—Stafford Loan Limits*" and "*—PLUS Loan Program*."

Stafford Loans Generally

Stafford Loan Interest Rates. Stafford Loans first disbursed during the period from July 1, 1998 through June 30, 2006 bear interest, during the in-school and grace periods, at the 91-Day T-Bill Rate plus 1.7 percent, and otherwise at the 91-Day T-Bill Rate plus 2.3 percent, not to exceed 8.25 percent. Stafford Loans first disbursed on or after July 1, 2006 bear interest at a fixed rate of 6.8 percent. See "*—Special Allowance Payments*."

Stafford Loan Limits. Subsidized Stafford Loans and Unsubsidized Stafford Loans made to any student are subject to annual and aggregate amount limitations. Currently, the annual limits applicable to Subsidized Stafford Loans are: (i) \$2,625 for first-year undergraduate students and students engaged in necessary coursework preliminary to undergraduate study; (ii) \$3,500 for second-year undergraduate students; (iii) \$5,500 for other undergraduate students and students engaged in necessary coursework preliminary to graduate or professional study; and (iv) \$8,500 for graduate or professional students. The 2005 Amendments provide that two of these limits will change, effective July 1, 2007, to \$3,500, for first-year undergraduate students and to \$4,500, for second-year undergraduate students. Aggregate limits of \$23,000, with respect to undergraduate students, and \$65,500 (inclusive of Subsidized Stafford Loans, and similar loans made under the FDSL Program, actually received with respect to undergraduate study), with respect to graduate and professional students, apply to Subsidized Stafford Loans.

Currently, the annual limits applicable to Unsubsidized Stafford Loans for dependent undergraduate students, whose parents are not ineligible for PLUS Loans, are generally the same as apply to Subsidized Stafford Loans less Subsidized Stafford Loans actually received. Additional Unsubsidized Stafford Loans are available, however, for other undergraduate, and for graduate or professional, students, subject to separate annual limits of: (i) \$4,000 for first and second-year undergraduate students and students engaged in necessary coursework preliminary to undergraduate study; (ii) \$5,000 for other undergraduate students and students engaged in necessary coursework preliminary to graduate or professional study; and (iii) \$10,000 for graduate and professional students. The 2005 Amendments provide that three of these limits will change, effective July 1, 2007, to \$7,000, for students engaged in necessary coursework preliminary to undergraduate or to graduate or professional study, including coursework necessary for a professional credential or certification from a state required for employment as a teacher in an elementary or secondary school, and to \$12,000, for graduate and professional students. The Secretary has

discretion to raise these limits to accommodate specialized training requiring exceptionally high costs. Aggregate limits of \$46,000 with respect to undergraduate students (inclusive of Subsidized Stafford Loans, and similar loans made under the FDSL Program, actually received) and \$138,500 (inclusive of Subsidized Stafford Loans, and similar loans made under the FDSL Program, actually received and Unsubsidized Stafford Loans, and similar loans made under the FDSL Program, actually received with respect to undergraduate study), with respect to graduate and professional students, apply to Unsubsidized Stafford Loans.

Repayment. Generally, repayment of principal on a Stafford Loan does not commence while a student remains a Qualified Student, but begins upon expiration of the applicable Grace Period, as described below. The Higher Education Act currently requires minimum annual payments of \$600, including principal and interest, unless the borrower and the lender agree to lesser payments. The Higher Education Act currently requires lenders to offer and to allow the borrower to select among the following repayment plans: (i) a standard repayment plan with fixed payments scheduled over a period of not more than 10 years; (ii) a graduated repayment plan with graduated payments scheduled over a period of not more than 10 years; (iii) an income-sensitive plan with income-sensitive payments that are not less than the amount of interest due scheduled over a period of not more than 10 years; and (iv) with respect to first-time borrowers after October 1, 1998 with loan amounts in excess of \$30,000, an extended repayment plan with fixed or graduated payments scheduled over a period of not to exceed 25 years. The Higher Education Act further requires that lenders notify all borrowers of the availability of income-sensitive repayment through loan consolidation and permits student borrowers to change repayment plans annually.

Grace Periods, Deferment Periods, Forbearance Periods. Repayment of principal on a Stafford Loan must generally commence following a period (a "Grace Period") of not more than 6 months, after the borrower ceases to pursue at least a half-time course of study. Such 6-month period excludes any period not in excess of 3 years (per single period) during which a borrower who is a member of a reserve component of the United States Armed Forces is called or ordered to active duty for a period of more than 30 days, including the period necessary to resume enrollment at the borrower's next available regular enrollment period. However, subject to certain conditions, principal repayment may be deferred by borrowers during a number of other periods ("Deferment Periods"), which may include periods during which the borrower (i) is engaged in half time study at an eligible educational institution or in a course of study under an eligible graduate fellowship program; (ii) is temporarily totally disabled, is engaged in a rehabilitative training program for disabled individuals or is unable to secure employment by reason of the care required by a dependent who is so disabled; (iii) conscientiously seeking, but unable to find, full time employment in the United States; (iv) an unemployed recent student who is pregnant or caring for his or her newborn or recently adopted child; (v) on active duty in the National Oceanic and Atmospheric Administration; (vi) a full time elementary or secondary school teacher in a designated teacher shortage area; (vii) a medical intern or resident; (viii) a mother of preschool children meeting certain income and work experience requirements; (ix) meets certain economic hardship criteria; or (x) serving on active duty as a member of the United States Armed Services or National Guard during a war, certain military operations or certain national emergencies. Certain such Deferment Periods are time-limited. Borrowers may utilize multiple Deferment Periods during their repayment periods. Interest continues to accrue and to be payable by the borrower or, with respect to Subsidized Stafford Loans and Consolidation Loans for which Interest Subsidy Payments are authorized, the Secretary. Lenders must allow periods of forbearance upon request, renewable at twelve-month intervals, on terms agreed to in writing by parties to the loan: (i) during the borrower's participation in certain medical or dental internships or residency programs; (ii) during periods not in excess of three years in which the borrower's student loan debt burden equals or exceeds 20 percent of gross income; and (iii) during periods in which the borrower is serving in certain national service positions and are permitted to grant administrative forbearance for shorter periods to avoid defaults (each, a "Forbearance Period").

Interest Subsidy Payments on Subsidized Stafford Loans

The Secretary is responsible for making Interest Subsidy Payments to holders of Subsidized Stafford Loans while the borrower is a Qualified Student, during certain Grace Periods or during any Deferment Period. The Secretary makes quarterly Interest Subsidy Payments in the amount of interest accruing on the unpaid balance thereof prior to the commencement of repayment or during any Deferment Period. The Higher Education Act provides that the owner of an eligible Subsidized Stafford Loan shall be deemed to have a contractual right against the United States to receive Interest Subsidy Payments in accordance with its provisions. Receipt of Interest Subsidy Payments is conditioned on the eligibility of the loan for insurance or reinsurance benefits. Such eligibility

may be lost if the requirements of the federal government and the guaranty agency relating to the servicing and collection of the loans are not met.

Unsubsidized Stafford Loans

The Unsubsidized Stafford Loan program is designed for students who do not qualify for Subsidized Stafford Loans due to parental and/or student income and assets in excess of permitted amounts, or who need additional loans to supplement their Subsidized Stafford Loans. Annual loan limits are as described under “—*Stafford Loan Limits*” above. In other respects, the general requirements for Unsubsidized Stafford Loans are essentially the same as those for Subsidized Stafford Loans. The interest rate and the Special Allowance Payment provisions of the Unsubsidized Stafford Loans are the same as those of the Subsidized Stafford Loans. However, the terms of the Unsubsidized Stafford Loans differ materially from Subsidized Stafford Loans in that the federal government will not make Interest Subsidy Payments and the loan limitations are determined without respect to the expected family contribution. The borrower is required to pay interest from the time such loan is disbursed or to capitalize the interest until repayment begins and during Deferment Periods.

PLUS Loan Program

The Higher Education Act authorizes PLUS Loans to be made to parents of eligible dependent students and to graduate and professional students. Only borrowers who do not have an adverse credit history are eligible for PLUS Loans. The basic provisions applicable to the PLUS Loan Program are similar to those of Stafford Loans with respect to the federal insurance and reinsurance on the loans. However, PLUS Loans differ from Subsidized Stafford Loans, particularly because borrowers need not demonstrate Unmet Need to qualify for PLUS Loans and because Interest Subsidy Payments are not available under the PLUS Program.

Loan Limits. The only limit on the annual and aggregate amounts of PLUS Loans is the cost of the student's education less Estimated Financial Assistance.

Interest. PLUS Loans made during the period from July 1, 1998 through June 30, 2006 bear interest at a rate equivalent to the 91-Day T-Bill Rate plus 3.1 percent, with a maximum rate of 9 percent. PLUS Loans first disbursed on or after July 1, 2006 bear interest at a fixed rate of 8.5 percent. See “—*Special Allowance Payments*.”

Repayment, Deferments. Repayment of principal of PLUS Loans is required to commence no later than 60 days after the date of disbursement of such loan, subject to certain deferment provisions. The deferment provisions that apply to PLUS Loans are more limited than those that apply to Subsidized Stafford Loans. Although Interest Subsidy Payments are not available during a Deferment Period, interest may be capitalized during such periods upon agreement of the lender and borrower. Maximum loan repayment periods and minimum payment amounts are the same as for Stafford Loans.

The Consolidation Loan Program

The Higher Education Act authorizes a program under which certain borrowers may consolidate their various federal education loans into a single FFEL Consolidation Loan insured and reinsured on a basis similar to that of Stafford Loans. FFEL Consolidation Loans may be made in an amount sufficient to pay outstanding principal, unpaid interest and late charges on all federally insured or reinsured FFELP Loans selected by the borrower, as well as loans made pursuant to various other student loan programs, including the FDSL Program, and which may have been made by different lenders. Under this program, a lender may make a FFEL Consolidation Loan to an eligible borrower at the request of the borrower. Prior to adoption of the 2006 Amendments, however, the Higher Education Act only permitted a lender to make such a loan if the lender held an outstanding loan of the borrower, if the borrower certified that he has been unable to obtain a FFEL Consolidation Loan with income-sensitive terms from the holders of the outstanding loans made to the borrower or if the borrower had multiple FFELP Loans with different holders. See “—*The Federal Direct Student Loan Program*.”

FFEL Consolidation Loans are available to borrowers in repayment status or in a Grace Period preceding repayment. Delinquent or defaulted borrowers are eligible to obtain FFEL Consolidation Loans if they have made

arrangements to repay the defaulted loan which are satisfactory to the holder and/or guarantor. For applications received prior to July 1, 2006, married couples who agree to be jointly and severally liable were treated as one borrower for purposes of loan consolidation eligibility.

FFEL Consolidation Loans for which the application is received after October 1, 1998 bear interest at a rate equivalent to the weighted average of the interest rates on the loans consolidated, rounded upwards to the nearest one-eighth of 1 percent, with a maximum rate of 8.25 percent. The repayment schedules for FFEL Consolidation Loans will not exceed: (i) 10 years for loans less than \$7,500; (ii) 12 years for loans greater than or equal to \$7,500, but less than \$10,000; (iii) 15 years for loans greater than or equal to \$10,000, but less than \$20,000; (iv) 20 years for loans greater than or equal to \$20,000, but less than \$40,000; (v) 25 years for loans greater than or equal to \$40,000, but less than \$60,000; and (vi) not more than 30 years for loans equal to or in excess of \$60,000. The Secretary makes Interest Subsidy Payments on FFEL Consolidation Loans only with respect to that portion, if any, of a FFEL Consolidation Loan which repays Subsidized Stafford Loans and similar loans originated under the FDSL Program. The borrower is eligible for certain deferments of principal and interest payments for periods similar to those for Subsidized Stafford Loans, and, subject to the foregoing, Interest Subsidy Payments are made to the eligible holder during such periods. Deferred interest payments for which Interest Subsidy Payments are not available are capitalized. Borrowers may elect to accelerate principal payments without penalty. Further, no insurance premium may be charged to a borrower and no insurance premium may be charged to a lender in connection with a FFEL Consolidation Loan. However, a fee may be charged to the lender by the guaranty agency to cover the costs of increased or extended liability with respect to a FFEL Consolidation Loan. Holders of FFEL Consolidation Loans are required to make monthly rebate payments to the Secretary calculated on an annual basis equal to 1.05 percent of the principal plus accrued interest on such loans.

Repayment of Consolidation Loans begins 60 days after discharge of all prior loans that are consolidated. Repayment schedule options must include the establishment of graduated and income sensitive repayment plans, subject to certain limits applicable to the sum of the Consolidation Loan and the amount of the borrower's other eligible student loans outstanding. All eligible loans of a borrower selected for consolidation are discharged in the consolidation process and a new loan is issued.

The Higher Education Act currently provides that borrowers of a FFEL Consolidation Loan may not generally obtain subsequent FFEL Consolidation Loans, or obtain consolidation loans under the FDSL Program for which the application is received on or after July 1, 2006, with respect to the loans consolidated by such FFEL Consolidation Loan. Exceptions exist, however, for borrowers who receive additional FFELP Loans or FDSL Program loans to fund costs of attendance and for borrowers seeking FDSL Program consolidation loans with income contingent repayment terms for default aversion purposes. In addition, borrowers may add previously unconsolidated FFELP Loans or FDSL Program loans to FFEL Consolidation Loans within 180 days of the making of the FFEL Consolidation Loans. The 2005 Amendments provide that the Secretary shall offer FDSL Program consolidation loans to borrowers whose application for a FFEL Consolidation Loan has been denied by a FFEL Program lender or whose application for a FFEL Consolidation Loan with income-sensitive repayment terms has been denied.

Special Allowance Payments

The Higher Education Act provides for Special Allowance Payments to be made by the Secretary to eligible lenders holding FFELP Loans. The rates for Special Allowance Payments are based on formulas that differ according to the type of loan (Stafford Loan, PLUS Loan, SLS Loan or Consolidation Loan), the date the loan was originally made or insured and the type of funding used by the holder to finance such loan (tax-exempt or taxable). Generally, the sum of the stated interest on the loan and the applicable Special Allowance Payment for a quarter will be a statutorily specified number of percentage points (the "SAP Spread") above the 91-Day T-Bill Rate for that quarter, with respect to loans first disbursed on or prior to December 31, 1999, and above the CP Rate, with respect to loans first disbursed subsequent to January 1, 2000.

The SAP Spread applicable to Stafford Loans originated: (i) during the period from July 1, 1998 through December 31, 1999, during in-school periods and Grace and Deferment Periods, is 2.2 percent and, otherwise, is 2.8 percent; (ii) during the period from January 1, 2000 through June 30, 2006 for which the applicable rate of interest is described in Section 427A(k)(2) of the Higher Education Act, is 1.74 percent, during in-school periods and Grace

and Deferment Periods and, otherwise, is 2.34 percent; and (iii) on or after July 1, 2006 for which the applicable rate of interest is described in Section 427A(l)(1) of the Higher Education Act, is 1.74 percent, during in-school periods and Grace and Deferment Periods and, otherwise, is 2.34 percent. The SAP Spread applicable to PLUS Loans originated: (i) during the period from October 1, 1992 through December 31, 1999 is 3.1 percent; and (ii) subsequent to January 1, 2000 is currently 2.64 percent. The SAP Spread applicable to FFEL Consolidation Loans originated: (i) during the period from October 1, 1992 through December 31, 1999 is 3.1 percent; and (ii) subsequent to January 1, 2000 is currently 2.64 percent. The 2005 Amendments modified the provisions addressing Special Allowance Payments, applicable to FFELP Loans that are first disbursed and to Special Allowance Payments made on and after April 1, 2006, to require a credit to the federal government against amounts that would otherwise be payable to the holders of such FFELP Loans in the amount by which interest accruing or payable upon such FFELP Loans during any 3-month period exceeds the amount that would have been received upon such loans if interest thereon was paid at an annual rate equivalent to the CP Rate plus: (i) 1.74 percent, with respect to Stafford Loans during in-school, grace and deferment periods; (ii) 2.34 percent, with respect to Stafford Loans otherwise; and (iii) 2.64 percent, with respect to PLUS and FFEL Consolidation Loans. As of the date of this Official Statement, the Department has indicated that it intends to require holders to make payments to it if the credit exceeds the amount that would otherwise be payable to the holder during a period.

Special Allowance Payments are generally payable, with respect to variable rate FFELP Loans to which a maximum borrower interest rate applies, only when such maximum rate is in effect. The rate of Special Allowance Payments is subject to reduction by the amount of certain origination fees charged to borrowers and may be reduced as a result of certain federal budget deficit reduction measures. The Secretary is required, however, to reduce the total amount of Interest Subsidy Payments and Special Allowance Payments by an amount equivalent to .50 percent of the principal amount of such loan.

The Higher Education Act provides that a holder of a qualifying loan who is entitled to receive Special Allowance Payments has a contractual right against the United States, during the life of the loan, to receive those Special Allowance Payments. Receipt of Special Allowance Payments, however, is conditioned on the eligibility of the loan for federal insurance or reinsurance benefits. Such eligibility may be lost due to violations of the federal or guaranty agency regulations specifying servicing and collection of the loan in the event of delinquency.

Federal Insurance and Reinsurance and Reimbursement of Guaranty Agencies

A loan made under the Higher Education Act is considered to be in default for purposes of the Higher Education Act when the borrower fails to make an installment payment when due, or to comply with other terms of the loan, and if the failure persists for 270 days beyond the payment due date, in the case of a loan repayable in monthly installments, or for 330 days beyond the payment due date, in the case of a loan repayable in less frequent installments. FFELP Loans which became delinquent prior to October 1, 1998 were considered in default after 180 days, in the case of a loan repayable in monthly installments, or after 240 days, in the case of a loan repayable in less frequent installments.

If the loan in default is covered by federal loan insurance in accordance with the provisions of the Higher Education Act, the Secretary is to pay the insurance beneficiary the amount of the loss sustained thereby, upon notice and determination of such amount, within 90 days of such notification, subject to reduction as described below.

The Higher Education Act provides that, subject to compliance with the Higher Education Act, the full faith and credit of the United States is pledged to the payment of insurance claims. It further provides that guaranty agencies shall be deemed to have a contractual right against the United States to receive reinsurance in accordance with its provisions. Federal reinsurance and insurance payments for defaulted loans are paid from the Student Loan Insurance Fund established under the Higher Education Act. The Secretary is authorized, to the extent provided in advance by appropriations acts, to issue obligations to the Secretary of the Treasury to provide funds to make such federal payments. In addition, the Higher Education Act provides that if the Secretary determines that a guaranty agency is unable to meet its insurance obligations, holders of loans may submit insurance claims directly to the Secretary until such time as the obligations are transferred to a new guaranty agency capable of meeting such obligations or until a successor guaranty agency assumes such obligations and further provide that the Secretary will pay to holders the full insurance obligations of such guaranty agency, in accordance with requirements which are no

more stringent than those of such guaranty agency. There can be no assurance, however, that the Secretary will ever make such a determination or will do so in a timely manner. The Higher Education Act also provides that the Secretary is authorized, on terms and conditions satisfactory to the Secretary, to make advances to a guaranty agency in order to assist the guaranty agency in meeting its immediate cash needs and to ensure uninterrupted payment of default claims by lenders.

If the loan is guaranteed by a guaranty agency, the eligible lender is reimbursed by the guaranty agency pursuant to agreements for guarantee. Such agreements provide for reimbursement of the unpaid principal balance of the loan plus accrued unpaid interest on any loan defaulted so long as the eligible lender has properly serviced such loan. Pursuant to most agreements for guarantee between a guaranty agency and the originator of the loan, any eligible holder of a loan insured by such guaranty agency is entitled, subject to the preceding sentence, to reimbursement from such guaranty agency for (i) 98 percent of any proven loss incurred with respect to defaulted claims, with respect to FFELP Loans that were first disbursed prior to July 1, 2006 (ii) 97 percent of any such proven loss, with respect to FFELP Loans that are first disbursed on or subsequent to such date; (iii) 100 percent of any such proven loss, with respect to FFELP Loans administered by lenders and servicers designated by the Secretary for exceptional performance before July 1, 2006; (iv) 99 percent of any such proven loss, with respect to FFELP Loans administered by such FFELP participants so designated on or after July 1, 2006; and 100 percent of any such proven loss incurred with respect to claims regardless of date of first disbursement relative to certain lender-of-last-resort-loans or to claims resulting from bankruptcy, death, disability, false certification or school closure.

A holder of a FFELP Loan is required to exercise due care and diligence in connection with the administration of such loan and to comply with specific collection procedures prescribed by the Secretary. If a guaranty agency has probable cause to believe that the holder has made misrepresentations or failed to comply with the terms of its agreement for guarantee, the guaranty agency may take reasonable action including withholding of payments or requiring reimbursement of funds. The guaranty agency may also terminate the agreement for cause upon notice and hearing. Holders are required to request preclaims assistance from the guaranty agency in order to attempt to cure the delinquency. Holders may submit claims to the guaranty agency with respect to loans which default. At the time of payment of insurance benefits, the holder must assign to the guaranty agency all rights accruing to the holder under the note evidencing the loan.

Under the Higher Education Act, the Secretary enters into a guaranty agreement and an annually renewable supplemental guaranty agreement with each guaranty agency which provides for federal reinsurance for amounts paid to eligible lenders by the guaranty agency with respect to defaulted loans. Pursuant to such agreements, the Secretary is to reimburse a guaranty agency for a percentage of default losses and for 100 percent of the amounts expended in connection with a claim with respect to loans made under a qualifying lender-of-last-resort program or a claim resulting from the death, discharge in bankruptcy, or total and permanent disability of a borrower, the death of a student whose parent is the borrower of a PLUS Loan, or claims by borrowers who are unable to complete the programs in which they are enrolled due to school closure or whose borrowing eligibility was falsely certified by the eligible institution. Such claims are not included in calculating a guaranty agency's claims rate experience for purposes of reducing federal reinsurance payments received by guaranty agencies as described in the following paragraphs.

Guaranty agencies are required to satisfy due diligence requirements prescribed by regulations with respect to defaulted loans. The Secretary may require repayment of reinsurance payments, and may require other remedial action, including the withholding of payments, imposition of fines and suspension or termination of agreements, in response to a guaranty agency's failure to comply with applicable regulations.

Under the Higher Education Act, reimbursement by the Secretary of a guaranty agency for any amounts paid to satisfy claims with respect to loans which are not made under a qualified lender-of-last-resort program and which do not result from death, bankruptcy, disability, school closure or false certification is subject to reduction as described in the following paragraphs.

The original principal amount of loans guaranteed by a guaranty agency that are in repayment for purposes of computing reimbursement payments to a guaranty agency means the original principal amount of all loans guaranteed by a guaranty agency less: (i) guarantee payments on such loans; (ii) the original principal amount of

such loans which have been fully repaid; and (iii) the original amount of such loans for which the first principal installment payment has not become due.

The amount of such insurance or reinsurance payments is subject to reduction based upon the annual claims rate of the guaranty agency, calculated to equal the amount of federal reinsurance as a percentage of the original principal amount of guaranteed loans in repayment on the last day of the prior fiscal year. The formula generally applicable under the 1998 Amendments is as follows:

<u>Claims Rate</u>	<u>Federal Payment</u>
0 percent up to 5 percent	95 percent of claim amounts
5 percent up to 9 percent	95 percent of claims up to 5 percent, 85 percent of claims of 5 percent and over
9 percent and over	95 percent of claims up to 5 percent, 85 percent of claims of 5 percent to 9 percent, and 75 percent of claims of 9 percent and over

The claims experience is not accumulated from year to year, but is determined solely on the basis of claims in any one federal fiscal year compared with the original principal amount of loans in repayment at the end of the prior federal fiscal year.

Notwithstanding the foregoing, the Secretary will reimburse a guaranty agency: (i) with respect to loans which are transferred from an insolvent guaranty agency pursuant to a plan approved by the Secretary at rates which are equivalent to those set forth above plus 5 percent; and (ii) with respect to loans made pursuant to a qualifying lender-of-last-resort program at a rate of 100 percent of claim amounts.

The Higher Education Act authorizes and, in some instances, requires guaranty agencies to retain certain fees with respect to FFELP Loan origination or other functions. These provisions have been the subject of frequent amendment. In addition, some of these provisions may be superseded with respect to a specific guaranty agency by the terms of a voluntary flexible agreement entered into by the Secretary with such guaranty agencies on a negotiated basis.

Guaranty agencies are required to maintain specific reserve fund levels. If the agency fails to achieve the minimum reserve level in any of two consecutive years, if the agency's federal reimbursements are reduced to 85 percent or if the Secretary determines the agency's administrative or financial condition jeopardizes its continued ability to perform its responsibilities, the Secretary may require the agency to submit and implement a management plan to address the deficiencies. The Secretary may terminate the agency's agreements with the Secretary if the agency fails to submit the required plan, or fails to improve its administrative or financial condition substantially, or if the Secretary determines the agency is in danger of financial collapse. In such event, the Secretary is authorized to undertake specified actions to assure the continued payment of claims, including the transfer of guarantees to another agency, or transfer of guarantees to the Department itself.

The Higher Education Act contains provisions to the effect that, notwithstanding any other provision of law, a substantial portion of the reserve funds of the guaranty agencies, and any assets purchased with such portion of such reserve funds, regardless of who holds or controls the reserves or assets, are the property of the United States, to be used in the operation of the FFEL Program or as otherwise provided by federal legislation. Such portion of such reserves will be required to be maintained by each guaranty agency to pay lender claims, to fund default aversion fees and, subject to certain restrictions, to fund guaranty agency operating costs on a no-interest loan basis. The Higher Education Act grants the Secretary broad powers over the administration and application of such portion of such reserves and, under certain conditions, of all guaranty agency reserves.

The Higher Education Act allows the Secretary to terminate a guaranty agency's agreement if the Secretary determines that termination is necessary to protect the federal financial interest or to ensure the continued availability of loans to student or parent borrowers. The Secretary is authorized to provide the guaranty agency with

additional advance funds with such restrictions on the use of such funds as are determined appropriate by the Secretary in order to meet the immediate cash needs of the guaranty agency, ensure the uninterrupted payment of claims, or ensure that the guaranty agency will make loans as the lender-of-last-resort.

The Higher Education Act provides that if the Secretary has terminated or is seeking to terminate a guaranty agency's agreement, or has assumed a guaranty agency's functions, notwithstanding any other provision of law: (i) no state court may issue an order affecting the Secretary's action with respect to that guaranty agency; (ii) any contract entered into by the guaranty agency with respect to the administration of the agency's reserve funds or assets acquired with reserve funds shall provide that the contract is terminable by the Secretary upon 30 days' notice to the contracting parties if the Secretary determines that such contract includes an impermissible transfer of funds or assets or is inconsistent with the terms or purposes of this law; and (iii) no provision of state law shall apply to the actions of the Secretary in terminating the operations of the guaranty agency. Finally, notwithstanding any other provision of law, the Higher Education Act provides that the Secretary's liability for any outstanding liabilities of a guaranty agency (other than outstanding student loan guarantees under Part D of Title IV of the Higher Education Act) the functions of which the Secretary has assumed, shall not exceed the fair market value of the reserves of the guaranty agency, minus any necessary liquidation or other administrative costs.

The Balanced Budget Act of 1997 required the Secretary to recall \$1 billion in reserve funds from guaranty agencies on September 1, 2002. The 1998 Amendments required the Secretary to recall an additional \$250 million in reserve funds from guaranty agencies by federal fiscal year 2007. Each of the Balanced Budget Act and the 1998 Amendments contained detailed provisions as to the allocation of amounts to be so recalled among guaranty agencies. In addition, the 1998 Amendments required the Secretary to transfer all funds in the Student Loan Insurance Fund as of October 7, 1998 to the Treasury. There can be no assurance that future legislation will not require the recall and transfer of substantially all federal funds, including the federal portion of guaranty agency reserve funds, which are immediately available to fund guaranty agency and federal payment obligations arising in connection with the FFEL Program.

Education Loans Generally Not Subject to Discharge in Bankruptcy

Under the United States Bankruptcy Code, education loans are not generally dischargeable. Title 11 of the United States Code at Section 523(a)(8) provides, with respect to cases initiated on or after October 7, 1998, and in connection with: (i) "a loan made, insured, or guaranteed by a governmental unit, or made under any program funded in whole or in part by a governmental unit or nonprofit institution"; or (ii) "any other education loan that is a qualified education loan, as defined in Section 211(d)1 of the Internal Revenue Code of 1986 ...", as follows:

A discharge under Section 727, 1141, 1228(a), 1228(b), or 1328(b) of this title does not discharge an individual debtor from any [such] debt ... unless excepting such debt from discharge ... would impose an undue hardship on the debtor and the debtor's dependents...

Servicer Provisions and Third-Party Servicer Requirements

On April 29, 1994, the Department published regulations amending the Student Assistance General Provisions and FFEL Program regulations which, among other things, establish requirements governing contracts between holders of FFELP Loans and third-party servicers, establish standards of administrative and financial responsibility for third-party servicers that administer any aspect of a guaranty agency's or lender's participation in the FFEL Program, and establish sanctions for third-party servicers.

Under these regulations, a third-party servicer is jointly and severally liable with its client lenders, guaranty agencies and educational institutions, as applicable, for liability to the Department arising from the servicer's violation of applicable requirements. In addition, if a servicer fails to meet standards of financial responsibility or administrative capability included in the new regulations, or violates other FFEL Program requirements, the new regulations authorize the Department to fine the servicer or limit, suspend, or terminate the servicer's eligibility to contract to service Student Loans. The effect of such a limitation, suspension, or termination on a servicer's eligibility to service loans already on its system, or to accept new loans for servicing under existing contracts, is unclear.

The 1998 Amendments provide that an eligible lender or guaranty agency that contracts with another entity to perform any of its functions with respect to the FFEL Program or otherwise delegates the performance of such functions shall not be relieved of its duty to comply with the requirements of the Higher Education Act and shall monitor the activities of such other entity for compliance with such requirements.

Loan Origination and Servicing Procedures Applicable to FFELP Loans

The Higher Education Act, including the implementing regulations thereunder, imposes specified requirements, guidelines and procedures with respect to originating and servicing FFELP Loans. Generally, those procedures require that completed loan applications be processed, a determination of whether an applicant is an eligible borrower under applicable standards be made, the borrower's responsibilities under the loan be explained to him or her, the promissory note evidencing the loan be executed by the borrower and then that the loan proceeds be disbursed in a specified manner by the lender. After the loan is made, the lender must establish repayment terms with the borrower, properly administer deferments and forbearance and credit the borrower for payments made thereon. If a borrower becomes delinquent in repaying a loan, a lender or a servicing agent must perform certain collection procedures (primarily telephone calls and demand letters) which vary depending upon the length of time a loan is delinquent. Numerous federal and state consumer protection laws and related regulations impose substantial requirements upon lenders and servicers involved in consumer finance. Also, some state laws impose finance charge ceilings and other restrictions on certain consumer transactions and require contract disclosures in addition to those required under federal law. These requirements impose specific statutory liabilities upon lenders who fail to comply with their provisions. In certain circumstances, a lender may be liable for certain violations of consumer protection laws that apply to the Financed Student Loans, either as assignee or as the party directly responsible for obligations arising after the transfer.

The Federal Direct Student Loan Program

Under the FDSL Program, a variety of direct federal loans with terms and conditions generally similar to those available under the FFEL Program may be obtained by students, or parents of students, attending participating Institutions of Higher Education ("IHE") through the applicable IHE or through an alternative originator designated by the Secretary, without application to an outside lender. The FDSL Program is funded and administered by the Secretary. The FDSL Program provides for a variety of repayment plans from which borrowers may choose, including repayment plans based on income. In addition, the Secretary is authorized to offer a FFELP borrower a consolidation loan with income sensitive terms under the FDSL Program if a FFELP lender has denied the borrower's application for a Consolidation Loan or for a Consolidation Loan with income sensitive repayment terms. Prior to the adoption of the 2006 Amendments, however, the Higher Education Act only permitted the Secretary to offer such loans to borrowers if the borrower was also consolidating a FDSL Program loan or if such consolidation would resolve a default. The 2002 Amendments provide that the interest rate formulas for loans made under the FDSL Program are extended to loans disbursed before July 1, 2006. Interest rates for loans disbursed on or after July 1, 2006 have been changed to fixed rates.

SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE

The following is a summary of certain provisions of the Indenture of Trust dated as of August 1, 2004 (the "Original Indenture") between the Corporation and the Trustee, as previously supplemented and amended, and as supplemented and amended by the Fifth Supplemental Indenture of Trust dated as of August 1, 2006 between the Corporation and the Trustee (as so supplemented and amended, the "Indenture"; capitalized terms used but not defined herein are used as defined for purposes of the Indenture). Copies of the Original Indenture and of each Supplemental Indenture are available upon request from the Corporation. This summary does not purport to be complete or to follow the exact language of the Indenture and is subject in all respects to the detailed provisions of the Indenture.

Definitions

"Account" shall mean any of the accounts created and established within any Fund by the Indenture.

"Act" shall mean the provisions of the Higher Education Act of 1965, as amended or supplemented from time to time relating to the Federal Family Education Loan Program or, upon delivery of a Corporation Order accompanied by a Favorable Opinion, any successor federal act, and, each case, all regulations, directives, bulletins, and guidelines promulgated from time to time thereunder.

"Additional Bonds" shall mean bonds or notes issued pursuant to the Original Indenture other than the Existing Bonds and the 2006 Bonds.

"Add-on Consolidation Loan" shall mean a Higher Education Act Eligible Loan included in the Trust Estate, the principal balance of which is added to an existing Consolidation Loan during the Add-on Period, as required by the Act.

"Add-on Period" shall mean the period of 180 days after the date of origination of any Consolidation Loan.

"Aggregate Market Value" shall mean on any calculation date the sum of the Values of all assets of the Trust Estate, excluding amounts required to be deposited in the Rebate Fund which have not, as of any date of calculation, yet been deposited therein as certified by the Corporation to the Trustee.

"Alternative Student Loan" shall mean loans not constituting Higher Education Act Eligible Loans, HEAL Loans or Institution Loans made to finance higher education; provided, that the Financing of each different type of Alternative Student Loan shall be authorized by: (i) a Supplemental Indenture authorizing the issuance of Bonds; or (ii) a Corporation Order accompanied by a Rating Confirmation and a Favorable Opinion.

"Authorized Officer" shall mean, when used with reference to the Corporation, the Chair, Chair-Elect, Secretary-Treasurer, Executive Director or Chief Financial Officer of the Corporation, and any other of its directors, officers, agents or employees duly authorized by the by-laws or by a resolution of the Board to act on behalf of the Corporation.

"Board" or *"Board of Directors"* shall mean the Board of Directors of the Corporation.

"Bond Counsel" shall mean counsel of nationally recognized standing in the field of law relating to municipal bonds selected by the Corporation.

"Bond Payment Date" shall mean, for any Bond, any Interest Payment Date, its Stated Maturity or the date of any other mandatory scheduled payment with respect thereto designated in a Supplemental Indenture.

“Bond Yield” shall mean, with respect to any Bonds issued as Tax-Exempt Bonds, the yield on such Tax-Exempt Bonds computed in accordance with the Code.

“Bonds” shall mean any bonds or notes issued pursuant to the Original Indenture, including the Existing Bonds, the 2006 Bonds and any Additional Bonds.

“Business Day” shall mean (a) with respect to the Series 2006 Tax-Exempt Bonds as Tax-Exempt ARCs, the definition set forth in Appendix F, (b) with respect to the Series 2006 Taxable Bonds as Taxable ARCs, the definition set forth in Appendix H, and (c) with respect to any other Bonds, the definition specified for such Bonds in the Supplemental Indenture authorizing the issuance of such Bonds.

“Code” shall mean the Internal Revenue Code of 1986, as amended from time to time. Each reference to a section of the Code shall be deemed to include the United States Treasury Regulations, including applicable temporary and proposed regulations, relating to such section which are applicable to the Tax-Exempt Bonds or the use of the proceeds thereof. A reference to any specific section of the Code shall be deemed also to be a reference to the comparable provisions of any enactment which supersedes or replaces the Code thereunder from time to time.

“Commonwealth” shall mean the Commonwealth of Kentucky.

“Consolidation Fee” shall mean any federal origination fee, monthly rebate fee or similar fee payable to the Department relating to the origination or ownership of Consolidation Loans.

“Consolidation Loan” shall mean a Higher Education Act Eligible Loan made pursuant to Section 428C of the Act to consolidate the borrower’s obligations under various federally authorized student loan programs into a single loan, as supplemented by the addition of any related Add-on Consolidation Loan.

“Corporation” shall mean the Kentucky Higher Education Student Loan Corporation, an independent *de jure* municipal corporation and political subdivision of the Commonwealth, created and existing under and pursuant to the Corporation Act, and any successor thereto.

“Corporation Act” shall mean Sections 164A.010 to 164A.240, inclusive, of the Kentucky Revised Statutes, as amended.

“Corporation Order” shall mean a written order signed in the name of the Corporation by an Authorized Officer.

“Corporation Issuance Order” shall mean any Corporation Order executed and delivered in accordance with the terms of the Indenture in connection with the issuance and delivery of any Series of the Series 2006 Bonds.

“Corporation Swap Payment” shall mean a payment required to be made by or on behalf of the Corporation due to a Swap Provider pursuant to a Swap Facility (including Priority Termination Payments, but excluding other Termination Payments).

“Cost of Issuance Fund” shall mean the Fund by that name created in the Indenture, including any Accounts and Subaccounts created therein.

“Date of Issuance” or *“Issue Date”* shall mean the date of original issuance and delivery of any Bonds to an Underwriter.

“Debt Service Reserve Fund Requirement” shall mean, (i) as of the Initial Issue Date of the 2006 Bonds, an amount equal to fifty one-hundredths of one percent (.50%) of the aggregate Outstanding principal amount of the then Outstanding Bonds; provided, that in no event shall such amount be less than \$500,000; or (ii) such other amount as may be established by operation of the last delivered to the Trustee of: (a) the most recent Supplemental Indenture authorizing the issuance of Bonds addressing such requirement; or (b) the most recent Corporation Order addressing such amount accompanied by a Rating Confirmation.

"Eligible Lender" shall mean the Corporation and any "eligible lender," as defined in the Act, and which has received an eligible lender designation from the Secretary with respect to Higher Education Act Eligible Loans.

"Eligible Loan" shall mean (a) a Higher Education Act Eligible Loan; (b) a HEAL Loan; (c) a Qualified Institution Loan; (d) an Alternative Student Loan; or (e) any other loan made to finance education that is otherwise permitted to be financed by the Corporation pursuant to its Program (provided a Rating Confirmation and Favorable Opinion are received with respect thereto).

"Event of Bankruptcy" shall mean (a) the Corporation shall have commenced a voluntary case or other proceeding seeking liquidation, reorganization, or other relief with respect to itself or its debts under any bankruptcy, insolvency, or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian, or other similar official of it or any substantial part of its property, or shall have made a general assignment for the benefit of creditors, or shall have declared a moratorium with respect to its debts or shall have failed generally to pay its debts as they become due, or shall have taken any action to authorize any of the foregoing; or (b) an involuntary case or other proceeding shall have been commenced against the Corporation seeking liquidation, reorganization, or other relief with respect to it or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian, or other similar official of it or any substantial part of its property provided such action or proceeding is not dismissed within 60 days.

"Excess Interest" shall mean, with respect to each Series of Tax-Exempt Bonds, as of the date of computation, the amount, if any, equal to the amount which, if used to forgive principal of, or interest on, Financed Eligible Loans on such date, would be necessary to cause the Portfolio Yield to be equal to or less than the Bond Yield plus one-eighth percent or such greater spread as may be established: (i) by the applicable Tax Document; or (ii) by operation of a Favorable Opinion delivered to the Corporation and the Trustee, as permitted by Treasury Regulation § 1.148-2(d)(2) (such one-eighth percent or greater spread being hereinbelow referred to as the "Permitted Spread"); in any event together with any additional amounts as shall be required by the provisions of any Tax Document or as shall otherwise be necessary, in the opinion of Bond Counsel, to be paid to the federal government to prevent the Tax-Exempt Bonds from being "arbitrage bonds" within the meaning of Section 148 of the Code. All determinations of Excess Interest shall be made in accordance with the provisions of any applicable Tax Document.

"Favorable Opinion" shall mean an opinion of Bond Counsel addressed to the Corporation and the Trustee to the effect that the action proposed to be taken is authorized or permitted by the Corporation Act and by the Indenture and shall not adversely affect any exclusion from gross income for federal income tax purposes of interest on any Series of Tax-Exempt Bonds.

"Financed" or *"Financing,"* when used with respect to the application of Trust Estate funds to Eligible Loans, shall mean or refer to (a) Eligible Loans acquired or originated by the Corporation with balances in the Loan Fund or otherwise deposited in or accounted for in the Loan Fund or otherwise constituting a part of the Trust Estate and (b) Eligible Loans substituted or exchanged for Financed Eligible Loans, but does not include Eligible Loans released from the lien of the Indenture and sold or transferred, to the extent permitted by the Indenture.

"Fiscal Year" shall mean the fiscal year of the Corporation as established from time to time.

"Fitch" shall mean Fitch Ratings, its successors and assigns, and if such entity shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, "Fitch" shall be deemed to refer to any other nationally recognized securities rating agency designated by the Corporation.

"Funding Instrument" shall mean any surety bond, insurance policy, letter of credit or other similar obligation described in a Supplemental Indenture and deposited to the Debt Service Reserve Fund.

"Funds" shall mean each of the Funds created pursuant to the Indenture.

“Guarantee” or “Guaranteed” shall mean with respect to a Higher Education Act Eligible Loan, the insurance or guarantee by the Guaranty Agency pursuant to such Guaranty Agency’s Guarantee Agreement of the maximum percentage of the principal of and accrued interest on such Higher Education Act Eligible Loan allowed by the terms of the Act with respect to such Higher Education Act Eligible Loan at the time it was originated and the coverage of such Higher Education Act Eligible Loan by the federal reimbursement contracts, providing, among other things, for reimbursement to the Guaranty Agency for payments made by it on defaulted Higher Education Act Eligible Loans insured or guaranteed by the Guaranty Agency of at least the minimum reimbursement allowed by the Act with respect to a particular Higher Education Act Eligible Loan.

“Guarantee Agreement” shall mean a guaranty or lender agreement between the Corporation and any Guaranty Agency, and any amendments thereto.

“Guaranty Agency” shall mean any entity authorized to guarantee student loans under the Act and with which the Corporation (and/or the Trustee) maintains a Guarantee Agreement.

“HEAL Loan” shall mean any loan made to finance education that is insured by the Secretary of Health and Human Services pursuant to the Public Health Services Act; provided, that the Financing of HEAL Loans shall be authorized by: (i) a Supplemental Indenture authorizing the issuance of Bonds; or (ii) a Corporation Order accompanied by a Rating Confirmation and a Favorable Opinion.

“Higher Education Act Eligible Loan” shall mean any loan made to finance or refinance the costs of post-secondary education that is made under the Act; provided, except as may be expressly permitted by the Supplemental Indenture authorizing the issuance of any Series of Bonds, such loan shall be Guaranteed or Insured.

“Highest Priority Obligations” shall mean, (a) at any time when Senior Obligations are Outstanding, the Senior Obligations; (b) at any time when no Senior Obligations are Outstanding, the Subordinate Obligations; and (c) at any time when no Senior Obligations or Subordinate Obligations are Outstanding, the Junior-Subordinate Obligations (and any priorities as between Junior-Subordinate Obligations as shall be established by Supplemental Indentures).

“Institution” shall mean an “eligible institution” as defined in the Corporation Act, which is the maker of an Institution Note and which obtains an advance of an Institution Loan from the Corporation.

“Institution Loan” shall mean a loan by the Corporation to a Qualifying Institution for the purpose of funding Higher Education Act Eligible Loans or Alternative Student Loans by such institution to students or parents of students attending such institution to finance the students’ attendance at such institution; provided, that the Financing of Institution Loans shall be authorized by a Corporation Order accompanied by a Favorable Opinion.

“Institution Note” shall mean the promissory note of a Qualifying Institution in favor of the Corporation evidencing Institution Loans advanced from time to time by the Corporation to such Qualifying Institution.

“Insurance” or “Insured” or “Insuring” shall mean, with respect to a Higher Education Act Eligible Loan, the insuring by the Secretary under the Act of 100% of the principal of and accrued interest on such Eligible Loan.

“Interest Benefit Payment” shall mean an interest payment on Higher Education Act Eligible Loans received pursuant to the Act and an agreement with the federal government, or any similar payments.

“Interest Payment Date” shall mean (a) with respect to the Series 2006 Tax-Exempt Bonds as Tax-Exempt ARCs, the dates set forth in Appendix F, (b) with respect to the Series 2006 Taxable Bonds as Taxable ARCs, the dates set forth in Appendix H, and (c) with respect to any other Bonds, the Interest Payment Dates specified for such Bonds in the Supplemental Indenture authorizing the issuance of such Bonds.

“Investment Securities” shall mean any of the following to the extent permitted by law:

(a) direct obligations of, or obligations on which the timely payment of the principal of and interest on which are unconditionally and fully guaranteed by, the United States of America;

(b) interest-bearing time or demand deposits, certificates of deposit or other similar banking arrangements with a maturity of 12 months or less with any bank, trust company, national banking association or other depository institution, including those of the Trustee, provided that, at the time of deposit or purchase such depository institution has commercial paper which is rated "A-1+" by S&P and "F1+" by Fitch (if then rated by Fitch);

(c) bonds, debentures, notes or other evidences of indebtedness issued or guaranteed by any of the following agencies: Federal Farm Credit Banks, Federal Home Loan Mortgage Corporation, the Export-Import Bank of the United States, the Federal National Mortgage Association, the Student Loan Marketing Association, the Farmers Home Administration, Federal Home Loan Banks provided such obligation is rated "AAA" by S&P and Fitch, or any agency or instrumentality of the United States of America which shall be established for the purposes of acquiring the obligations of any of the foregoing or otherwise providing financing therefor;

(d) repurchase agreements and reverse repurchase agreements with a maturity of 12 months or less, other than overnight repurchase agreements and overnight reverse repurchase agreements, with banks, including the Trustee and any of its affiliates, which are members of the Federal Deposit Insurance Corporation or firms which are members of the Securities Investors Protection Corporation, in each case whose outstanding, unsecured debt securities are rated "AA-" or higher by S&P and Fitch (if then rated by Fitch), and, if commercial paper is outstanding, commercial paper which is rated "F1+" by Fitch (if then rated by Fitch) and "A-1+" by S&P;

(e) overnight repurchase agreements and overnight reverse repurchase agreements at least 101% collateralized by securities described in subparagraph (a) of this definition and with a counterparty, including the Trustee and any of its affiliates, that has senior debt rated "A" or higher by S&P and Fitch (if then rated by Fitch) and, if commercial paper is outstanding, commercial paper which is rated "F1" by Fitch (if then rated by Fitch);

(f) investment agreements or guaranteed investment contracts, which may be entered into by and among the Corporation and/or the Trustee and any bank, bank holding company, corporation or any other financial institution, including the Trustee and any of its affiliates, whose outstanding (i) commercial paper is rated "F1+" by Fitch (if then rated by Fitch) and "A-1+" by S&P for agreements or contracts with a maturity of 12 months or less; (ii) unsecured long-term debt is rated no lower than two subcategories below the highest rating on any series of Outstanding Bonds by Fitch (if then rated by Fitch) and S&P and, if commercial paper is outstanding, commercial paper which is rated "F1+" by Fitch (if then rated by Fitch) and "A-1+" by S&P for agreements or contracts with a maturity of 24 months or less, but more than 12 months, or (iii) unsecured long-term debt which is rated no lower than two subcategories below the highest rating on any series of Outstanding Bonds by S&P and Fitch (if then rated by Fitch), and, if commercial paper is outstanding, commercial paper which is rated "F1+" by Fitch (if then rated by Fitch) and "A-1+" by S&P for agreements or contracts with a maturity of more than 24 months, or, in each case, by an insurance company whose claims-paying ability is so rated;

(g) "Tax-Exempt bonds" as defined in Section 150(a)(6) of the Code, other than "specified private activity bonds" as defined in Section 57(a)(5)(C) of the Code, that are rated in the highest category by S&P and Fitch (if then rated by Fitch) for long-term or short-term debt or shares of a so-called money market fund rated "AAAm/AAAm-G" or higher by S&P and Fitch (if then rated by Fitch), that do not constitute "investment property" within the meaning of Section 148(b)(2) of the Code, provided that the fund has all of its assets invested in obligations of such rating quality and maintains a stable one dollar net asset value per share and the shares are freely transferable on a daily basis;

(h) commercial paper, including that of the Trustee and any of its affiliates, which is rated in the single highest classification, "F1+" by Fitch (if then rated by Fitch) and "A-1+" by S&P, and which

matures not more than 270 days after the date of purchase; provided, however, that not more than 20% of the Investment Securities shall be invested in any single credit;

(i) investments in a money market fund rated at least "AAAm" or "AAAm-G" by S&P and Fitch (if then rated by Fitch), including funds for which the Trustee or an affiliate thereof acts as investment advisor or provides other similar services for a fee; provided, however, that such Fitch rating, if any, shall be "AA"/"F1+" or higher for any money market fund which has the ability to maintain a stable one-dollar net asset value per share and whose shares are freely transferable on a daily basis; and

(j) any other investment with a Rating Confirmation from each Rating Agency.

"ISDA Master Agreement" shall mean the ISDA Interest Rate and Currency Exchange Agreement, copyright 2002, as amended from time to time, and as in effect with respect to any Swap Facility.

"Junior-Subordinate Bonds" shall mean Bonds, the principal of and interest on which is payable on a subordinated basis to the payment of the principal of and interest on the Senior Bonds and the Subordinate Bonds; provided, however, that any series of the Junior-Subordinate Bonds need not necessarily be payable on a parity with all other series of the Junior-Subordinate Bonds.

"Junior-Subordinate Obligations" shall mean Junior-Subordinate Bonds and any Swap Facility, the priority of payment of which is equal with that of Junior-Subordinate Bonds.

"Loan Fund" shall mean the Fund by that name created in the Indenture, including any Accounts and Subaccounts created therein.

"Maturity," when used with respect to any Bond, shall mean the date on which the principal thereof becomes due and payable as therein provided, whether at its Stated Maturity, by earlier redemption, by declaration of acceleration, or otherwise.

"Notional Amount" shall mean the nonpayable or the theoretical principal amount with reference to which Corporation Swap Payments and Swap Provider Payments are calculated, as specified as such for each Swap Facility in the documentation applicable thereto.

"Obligations" shall mean Senior Obligations, Subordinate Obligations and Junior- Subordinate Obligations.

"Operating Fund" shall mean the fund by that name described in the Indenture.

"Outstanding" or "outstanding" shall mean, when used in connection with any Bond, a Bond which has been executed and delivered pursuant to the Indenture which at such time remains unpaid as to principal or interest, and when used in connection with a Swap Facility, a Swap Facility which has not expired or been terminated, unless provision has been made for such payment pursuant to the Indenture, excluding Bonds which have been replaced pursuant to the Indenture.

"Person" shall mean an individual, corporation, estate, partnership, joint venture, association, joint stock company, trust (including any beneficiary thereof), unincorporated organization, limited liability company, limited liability partnership, or government or agency or political subdivision thereof.

"Portfolio Yield" shall mean, with respect to Financed Eligible Loans allocable to Bonds that are Tax-Exempt Bonds, the composite yield on the date of calculation of the portfolio of such Financed Eligible Loans computed in accordance with the Code, assuming no additional Eligible Loans are acquired and allocable to such Tax-Exempt Bonds.

"Principal Office" shall mean the principal or designated office of the party indicated, as set forth in the Indenture.

"Priority Termination Payment" shall mean, with respect to a Swap Facility, any termination payment payable by the Corporation under such Swap Facility relating to an early termination of such Swap Facility by the Swap Provider, as the non-defaulting party, following (i) a payment default by the Corporation thereunder, (ii) the occurrence of an Event of Default specified the Indenture or (iii) the Trustee's taking any action to liquidate the entire Trust Estate following an Event of Default and acceleration of the Bonds pursuant to the Indenture.

"Program" shall mean the Corporation's program for the Financing of Eligible Loans through application of moneys held or pledged pursuant to the Indenture, as the same may be modified from time to time.

"Program Documentation" shall mean, collectively, participation agreements and any other documents governing the Financing of Eligible Loans under the Program, contracts of insurance or contracts of guarantee with respect thereto and servicing agreements related thereto, as they may be amended by the Corporation from time to time.

"Program Expenses" shall mean (a) the fees and expenses of the Trustee; (b) the fees and expenses of any auction agent, any market agent, any calculation agent and any broker-dealer then acting under a Supplemental Indenture; (c) the fees and expenses of any remarketing agent then acting under a Supplemental Indenture; (d) the fees and expenses due to any credit provider of any Bonds for which a credit facility or liquidity facility is in place; (e) the fees and expenses of any Servicer under any servicing agreement and of any custodian under any custodian agreement; (f) the fees and expenses of the Corporation incurred in connection with the preparation of legal opinions and other authorized reports or statements attributable to the Bonds and the Financed Eligible Loans; (g) transfer fees, purchase premiums, loan origination fees, marketing fees and Consolidation Fees and other payments required under the Act on Financed Eligible Loans, to the extent not otherwise paid from the Loan Fund; (h) fees and expenses associated with the delivery of a substitute credit facility or liquidity facility under a Supplemental Indenture; (i) fees and expenses associated with (but not payments under) Swap Facilities; (j) the costs of remarketing any variable rate Bonds; and (k) expenses incurred for the Corporation's maintenance and operation of its Program and properly attributable to the Indenture, the Bonds or the Financed Eligible Loans, including the reasonable fees and expenses of attorneys, agents, financial advisors, rebate analysts, consultants, accountants and other professionals, attributable to such maintenance and operation, marketing expenses for the Program and a prorated portion of the rent, personnel compensation, office supplies and equipment, travel expenses and other lawful payments made to members of the Board.

"Qualified Institution Loan" shall mean an Institution Loan meeting the following criteria; provided that the Trustee and the Corporation shall have received a Rating Confirmation prior to the origination or acquisition of such loans:

- (a) it was originated by the Corporation pursuant to a Qualifying Institution Agreement;
- (b) it represents the repayment obligation of a Qualifying Institution;
- (c) it is evidenced by an Institution Note, the sole executed original of which is in the possession of the Corporation and which is continually held from the time of its execution by the Corporation in its capacity as servicer;
- (d) it is payable in United States dollars;
- (e) it has been originated under, pursuant to and in accordance with the Corporation Act and the Corporation loan guidelines;
- (f) it has been advanced for the purpose of, and has financed (with the proceeds of such advance being concurrently applied to), the origination of one or more Higher Education Act Eligible Loans or Alternative Student Loans;
- (g) it is secured by an enforceable first-priority perfected security interest in the Higher Education Act Eligible Loans or Alternative Loans financed thereby (or in proceeds thereof invested solely

in cash or Investment Securities), pursuant to a security agreement, with the related executed originals of Program Documentation being maintained from the time of origination in the possession of the Corporation as secured party, which the Corporation, in its capacity as servicer, shall also hold for the benefit of the Trustee and any credit facility provider;

(h) it does not contravene in any material respect any laws, rules or regulations applicable thereto (including, without limitation, rules and regulations relating to truth in lending, fair credit billing, fair credit reporting, equal credit opportunity, fair debt collection practices and privacy);

(i) with respect to which all material consents, licenses, or authorizations of, or registrations with, any governmental authority required to be obtained or given in connection with the origination of such Institution Loan or the execution, delivery and performance of the related Qualifying Institution Agreement have been duly obtained or given and are in full force and effect; and

(j) its terms and conditions are consistent with a Favorable Opinion.

"Qualifying Institution" shall mean an Institution which is not the subject of an insolvency or similar proceeding, except as may be limited by a Supplemental Indenture.

"Qualifying Institution Agreement" shall mean an agreement which contains among its terms and provisions the following:

(a) provisions whereby the Institution which is a party thereto grants to the Corporation an enforceable security interest under the Act and applicable Commonwealth law in the Higher Education Act Eligible Loans and Alternative Student Loans financed through advances thereunder, all related notes evidencing such student loans, and all proceeds thereof, including provisions providing for the perfection of a security interest in favor of the Corporation in all notes financed thereunder and the related Program Documentation;

(b) provisions obligating the Institution which is the party thereto to convey all of its right, title and interest in the Higher Education Act Eligible Loans and Alternative Student Loans financed through advances thereunder, together with the related notes; and

(c) provisions delegating to the Corporation all necessary authority to administer the origination of the Higher Education Act Eligible Loans and Alternative Student Loans financed thereunder (including processing of loan applications, credit investigation and scoring, and credit approval), as well as to service and collect or contract to service and collect such Higher Education Act Eligible Loans, in each case, as contemplated thereby.

"Rating" shall mean one of the rating categories of S&P and Fitch or any other Rating Agency, provided S&P and Fitch or any other Rating Agency, as the case may be, is currently rating the Bonds at the request of the Corporation.

"Rating Agency" shall mean, at any time, collectively, S&P and Fitch and their successors and assigns or any other nationally recognized securities rating agency that is then maintaining a Rating on any of the Bonds at the request of the Corporation.

"Rating Confirmation" shall mean a letter from each Rating Agency then providing a Rating for any of the Bonds at the request of the Corporation, confirming that the action proposed to be taken by the Corporation shall not, in and of itself, result in a reduction of any of the Ratings then applicable to the Bonds, or cause any Rating Agency to suspend or withdraw the Ratings then applicable to the Bonds.

"Rebate Amount" shall mean, at any time with respect to a Series of Tax-Exempt Bonds, the aggregate amount of payments to the federal government with respect to such Series that would be sufficient, if made on that date, to cause the "yield", as such term is defined for purposes of the Code, upon Investment Securities and

Financed Eligible Loans allocable to such Series to conform to the applicable limitations provided in the Tax Documents with respect thereto.

"Rebate Fund" shall mean the Fund by that name created under the Indenture.

"Recoveries of Principal" shall mean all amounts received by the Trustee from or on account of any Financed Eligible Loan as a recovery of the principal amount thereof, including scheduled, delinquent and advance payments, payouts or prepayments, proceeds from insurance or from the sale, assignment, transfer, reallocation or other disposition of a Financed Eligible Loan and any payments representing such principal from the guarantee or insurance of any Financed Eligible Loan.

"Registered Owner" or *"Owner"* shall mean the Person in whose name a Bond is registered on the Bond registration books maintained by the Trustee, and shall also mean with respect to a Swap Facility, any Swap Provider, unless the context otherwise requires.

"Regulations" shall mean the Regulations promulgated from time to time by the Secretary or the Guaranty Agency.

"Revenue" or *"Revenues"* shall mean all Recoveries of Principal, interest, payments, proceeds, charges and other income received by the Trustee or the Corporation from or on account of any Financed Eligible Loan (including (a) scheduled, delinquent and advance payments of and any insurance proceeds with respect to, interest, including Interest Benefit Payments, on any Financed Higher Education Act Eligible Loan and any Special Allowance Payment received by the Corporation with respect to any Financed Higher Education Act Eligible Loan; and (b) scheduled, delinquent and advance payments of interest and any insurance or guarantee proceeds with respect to any Alternative Student Loan), all payments received with respect to Qualified Institution Loans, and all interest earned or gain realized from the investment of amounts in any Fund or Account and all payments received by the Corporation pursuant to a Swap Facility.

"Revenue Fund" shall mean the Fund by that name created under the Indenture, including any Accounts and Subaccounts created therein.

"S&P" shall mean Standard & Poor's Ratings Service, a Division of the McGraw-Hill Companies, Inc., its successors and assigns, and, if such entity shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, *"S&P"* shall be deemed to refer to any other nationally recognized securities rating agency designated by the Corporation.

"Secretary" shall mean the Secretary of the United States Department of Education or any successor to the pertinent functions thereof under the Act.

"Securities Depository" or *"Depository"* shall mean The Depository Trust Company and its successors and assigns or if, (a) the then Securities Depository resigns from its functions as depository of the Bonds or (b) the Corporation discontinues use of the Securities Depository, any other securities depository which agrees to follow the procedures required to be followed by a securities depository in connection with the Bonds and which is selected by the Corporation with the consent of the Trustee.

"Senior Bonds" shall mean all Bonds secured on a senior priority to the Subordinate Obligations and the Junior-Subordinate Obligations.

"Senior Obligations" shall mean Senior Bonds and any Swap Facility, the priority of payment of which is equal with that of Senior Bonds.

"Series" or *"series"* or *"Subseries"* or *"subseries"* shall mean all Bonds so designated by the Supplemental Indenture authorizing the issuance of such Bonds that are authenticated and delivered on the same Issue Date, and any Bonds thereafter authenticated and delivered in lieu of or in substitution for (but not to refund) such Bonds, regardless of variations in maturity, interest rate or other provisions.

"Series 2006 Acquisition Period" shall mean: (i) with respect to the use of proceeds of each Series of the Series 2006 Taxable Bonds deposited upon the Issue Date of such Series in the Loan Fund, the period beginning on such Issue Date and ending on and including the date which is six months following such Issue Date; and (ii) with respect to the use of proceeds of each Series of the Series 2006 Tax-Exempt Bonds deposited upon the Issue Date of such Series in the Loan Fund, the period beginning on such Issue Date and ending on and including the date which is twelve months following such Issue Date; or (iii) with respect to the use of proceeds of each Series of 2006 Bonds so deposited, such later date as may at any time be established by the last delivered to the Trustee of: (i) the most recent Supplemental Indenture authorizing the issuance of Bonds addressing such requirement; or (ii) a Corporation Order so establishing, accompanied by a Rating Confirmation.

"Servicer" shall mean the Corporation and any other additional Servicer or successor Servicer selected by the Corporation, so long as the Corporation obtains a Rating Confirmation as to each such other Servicer.

"Servicing Agreement" shall mean a servicing agreement, if any, with a Servicer relating to Financed Eligible Loans, as amended from time to time.

"Special Allowance Payments" shall mean the special allowance payments authorized to be made by the Secretary by Section 438 of the Act, or similar allowances, if any, authorized from time to time by federal law or regulation.

"Stated Maturity" shall mean the date specified in the Bonds as the fixed date on which principal of such Bonds is due and payable.

"Student Loan Purchase Agreement" shall mean any loan purchase agreement entered into for the purchase of Eligible Loans into the Trust Estate.

"Subaccount" shall mean any of the subaccounts which may be created and established within any Account by the Indenture or any Supplemental Indenture.

"Subordinate Bonds" shall mean any Bonds secured on a priority subordinate to the Senior Obligations and on a priority senior to the Junior-Subordinate Obligations.

"Subordinate Obligations" shall mean Subordinate Bonds and any Swap Facility, the priority of payment of which is equal with that of Subordinate Bonds.

"Supplemental Indenture" shall mean an agreement supplemental to the Indenture executed pursuant to the Indenture.

"Swap" or *"Swap Facility"* shall mean any financial arrangement entered into pursuant to terms described under the caption "Swap Facility" below: (i) that is entered into by the Corporation with an entity that is a Swap Provider at the time the arrangement is entered into; (ii) (a) which provides that the Corporation shall pay to such entity an amount based on the interest accruing at a fixed rate on the Notional Amount equal to all or part of the Outstanding principal amount of a series of Obligations issued hereunder, and that such entity shall pay to the order of the Corporation an amount based on the interest accruing on the Notional Amount at a variable rate of interest computed according to a formula set forth in such arrangement (which need not be the same as the actual rate of interest borne by such series of Obligations) or that one (after adjustment for any cap, floor, collar or other financial arrangement referred to in (ii)(c) of this paragraph, with respect thereto) shall pay to the other the net amount (Corporation Swap Payment or Swap Provider Payment) due under such arrangement; (b) which provides that the Corporation shall pay to such entity an amount based on the interest accruing on the Notional Amount equal to all or part of the Outstanding principal amount of a series of Obligations issued hereunder, at a variable rate of interest computed according to a formula set forth in such arrangement and that such entity shall pay to the order of the Corporation an amount based on the interest accruing at a fixed rate on the Notional Amount (which need not be the same as the actual rate of interest borne by such series of Obligations) or that one (after adjustment for any cap, floor, collar or other financial arrangement referred to in (ii)(c) of this paragraph, with respect thereto) shall pay to the other the net amount (Corporation Swap Payment or Swap Provider Payment) due under such arrangement; or

(c) which is included as part of or covered by the financial transaction described in (ii)(a) or (ii)(b) above or is separately executed and which is a cap, floor or collar, forward rate, future rate, asset, swap or index, price or market linked transaction or agreement, other exchange or rate protection transaction agreement, other similar transaction (however designated) or any combination thereof or any option with respect thereto executed by the Corporation for the purpose of moderating interest rate fluctuations or otherwise pursuant to the Corporation Act; and (iii) which has been designated by a Corporation Order to the Trustee and authenticated or otherwise registered by the Trustee hereunder as a Swap with respect to a series of Obligations. "Swap" or "Swap Facility" shall also include any such financial arrangement described in clauses (ii) and (iii) above entered into by the Corporation with a Swap Provider as a replacement of a Swap that has been terminated and which has been so designated by a Corporation Order to the Trustee with respect to a series of Obligations.

"*Swap Payment Date*" shall mean with respect to a Swap Facility, any date specified in the Swap Facility on which both or either of the Corporation Swap Payment and/or a Swap Provider Payment is due and payable under the Swap Facility.

"*Swap Provider*" shall mean any counterparty under a Swap Facility.

"*Swap Provider Payments*" shall mean any payment to be made to, or for the benefit of, the Corporation under a Swap Facility.

"*Tax Documents*" shall mean, collectively, the certificates and agreements of the Corporation and instructions to the Corporation and the Trustee, all dated the Date of Issuance, relating to the use of proceeds of the Tax-Exempt Bonds and which sets forth the grounds for the Corporation's belief that the Tax-Exempt Bonds are not "arbitrage bonds" within the meaning of the Code, including the exhibits and schedules attached thereto.

"*Taxable Bonds*" shall mean any Bonds issued and delivered pursuant to the Indenture, the interest on which does not purport to be excluded from the federal gross income of the Registered Owners thereof.

"*Taxable Cost of Issuance Account*" shall mean the Account by that name created pursuant to the Indenture.

"*Taxable Debt Service Reserve Account*" shall mean the Account by that name created pursuant to the Indenture.

"*Taxable Junior-Subordinate Bonds*" shall mean Junior-Subordinate Bonds which are Taxable Bonds.

"*Taxable Loan Account*" shall mean the Account by that name created pursuant to the Indenture.

"*Taxable Revenue Account*" shall mean the Account by that name created pursuant to the Indenture.

"*Taxable Senior Bonds*" shall mean Senior Bonds which are Taxable Bonds.

"*Taxable Subordinate Bonds*" shall mean Subordinate Bonds which are Taxable Bonds.

"*Tax-Exempt Bonds*" shall mean any Bonds which do not constitute Taxable Bonds.

"*Tax-Exempt Cost of Issuance Account*" shall mean the Account by that name created pursuant to the Indenture.

"*Tax-Exempt Debt Service Reserve Account*" shall mean the Account by that name created pursuant to the Indenture.

"*Tax-Exempt Junior-Subordinate Bonds*" shall mean Junior-Subordinate Bonds which are Tax-Exempt Bonds.

"Tax-Exempt Loan Account" shall mean the Account by that name created pursuant to the Indenture.

"Tax-Exempt Revenue Account" shall mean the Account by that name created pursuant to the Indenture.

"Tax-Exempt Senior Bonds" shall mean Senior Bonds which are Tax-Exempt Bonds.

"Tax-Exempt Subordinate Bonds" shall mean Subordinate Bonds which are Tax-Exempt Bonds.

"Termination Payment" shall mean, with respect to a Swap Facility, any termination payment payable by the Corporation under such Swap Facility relating to an early termination of such Swap Facility by the Swap Provider, as the non-affected party or non-defaulting party, after the occurrence of a termination event or event of default specified in such Swap Facility, including without limitation any Priority Termination Payment.

"Trust Estate" shall mean (a) the Revenues (other than Revenues deposited in the Rebate Fund or the Operating Fund or otherwise released from the lien of the Trust Estate as provided in the Indenture), (b) all moneys and investments held in the Funds (other than the moneys and investments held in the Rebate Fund and the Operating Fund), (c) the Financed Eligible Loans, (d) the rights of the Corporation in and to any Guarantee Agreements and any Servicing Agreements and Student Loan Purchase Agreements, as the same relate to Financed Eligible Loans, (e) the rights of the Corporation in and to any Swap Facility and any Swap Provider Payments; provided, however, that this clause (e) shall not be for the benefit of a Swap Provider with respect to its Swap Facility, (f) the rights of the Corporation in any collateral for Qualified Institution Loans, including without limitation, any Eligible Loans financed by a Qualifying Institution with the proceeds of a Qualified Institution Loan, and (g) any and all other property, rights and interests of every kind or description that from time to time is granted, conveyed, pledged, transferred, assigned or delivered to the Trustee as additional security under the Indenture

"Underwriter" shall mean the underwriter(s) or placement agent(s) of the Bonds.

"Value" on any calculation date when required under the Indenture shall mean the value of the Trust Estate calculated by the Corporation as to (a) below and by the Trustee as to (b) through (e), inclusive, below, as follows:

(a) with respect to any Eligible Loan, the unpaid principal amount thereof plus any accrued but unpaid interest, Interest Benefit Payments and Special Allowance Payments;

(b) with respect to any funds of the Corporation held under the Indenture and on deposit in any commercial bank or as to any banker's acceptance or repurchase agreement or investment contract, the amount thereof plus accrued but unpaid interest;

(c) with respect to any Investment Securities of an investment company, the bid price of the shares as reported by the investment company plus accrued but unpaid interest;

(d) as to investments the bid and asked prices of which are published on a regular basis in *The Wall Street Journal* (or, if not there, then in *The New York Times*): the average of the bid and asked prices for such investments so published on or most recently prior to such time of determination; and

(e) as to investments the bid and asked prices of which are not published on a regular basis in *The Wall Street Journal* or *The New York Times*: (i) the lower of the bid prices at such time of determination for such investments by any two nationally recognized government securities dealers (selected by the Corporation in its absolute discretion) at the time making a market in such investments or (ii) the bid price published by a nationally recognized pricing service.

Pledge for Payment

The Corporation covenants in the Indenture that it shall promptly pay, but solely from the Trust Estate, the principal of and interest, if any, on each and every Obligation issued under the provisions of the Indenture at the places, on the dates and in the manner specified therein and in the Obligations and any premium required for the

retirement of the Obligations by purchase or redemption according to the true intent and meaning thereof. The Obligations shall be payable from and equally secured by an irrevocable first lien on and pledge of the properties constituting the Trust Estate, subject to the application thereof as permitted or required by the Indenture, but in no event shall the Registered Owners or any holders of the Obligations have any right to possession of any Financed Eligible Loans, which shall be held only by the Corporation or its agent or bailee.

The Indenture provides that, to the fullest extent permitted by the Corporation Act, the Trust Estate shall immediately be subject to the lien of the pledge created by the Indenture without any physical delivery thereof or further act, and the lien of such pledge shall be valid and binding as against all parties having claims of any kind in tort, contract or otherwise against the Corporation, irrespective of whether such parties have notice thereof.

The Indenture provides that, to the fullest extent provided by the Corporation Act, the pledge made pursuant to the Indenture shall be immediately valid and binding and shall constitute a perfected first lien on the Trust Estate in favor of the Trustee as security for payment of all Outstanding Obligations, subject to the provisions of the Original Indenture and Supplemental Indentures permitting the use, application and disposal thereof.

Pursuant to the Indenture, the Corporation has appointed the Trustee as its agent to maintain an office for the registration, transfer or exchange of Bonds, and for the service of notices, presentations and demands upon the Corporation.

Issuance of Bonds

The Indenture provides that the Corporation shall have the authority, upon complying with the provisions of the Indenture, to execute and deliver from time to time Bonds secured by the Trust Estate as Senior Bonds, Subordinate Bonds or Junior-Subordinate Bonds as shall be determined by the Corporation. In addition, the Indenture allows the Corporation to enter into any Swap Facility it deems necessary or desirable with respect to any or all of the Bonds, subject to the provisions described below under the caption "Swap Facilities."

No Bonds shall be executed and delivered by the Corporation and authenticated by the Trustee pursuant to the Indenture until the following conditions have been satisfied:

(a) The Corporation and the Trustee have entered into a Supplemental Indenture (which Supplemental Indenture shall not require the approval of the Registered Owners of any of the Outstanding Bonds or Swap Facilities) providing the terms and forms of such Bonds, including the designation of such Bonds as Senior Bonds, Subordinate Bonds or Junior-Subordinate Bonds, whether such Bonds are Taxable Bonds or Tax-Exempt Bonds, the redemption and selection provisions applicable to such Bonds, and the Debt Service Reserve Fund Requirement with respect to such Bonds, if any.

(b) The Trustee shall have received a Rating Confirmation with respect to any Outstanding Bonds.

(c) The Trustee shall have received an opinion of Bond Counsel to the effect that the issuance of the proposed Bonds shall not adversely affect the excludability of interest from gross income with respect to any Outstanding Bonds which are Tax-Exempt Bonds.

(d) The Trustee shall have received an opinion of Bond Counsel to the effect that all of the foregoing conditions to the issuance of the proposed Bonds have been satisfied

(e) Upon the execution and delivery of the proposed Bonds, an amount equal to the Debt Service Reserve Fund Requirement with respect to such Additional Bonds, if any, shall be deposited in the Debt Service Reserve Fund.

(f) The Trustee shall have received a Corporation Order to authenticate and deliver the Additional Bonds.

Swap Facilities

The Indenture permits the Corporation to enter into Swap Facilities with Swap Providers under which (a) the Corporation or the Trustee may be required to make, from time to time, Corporation Swap Payments and (b) the Trustee may receive, from time to time, Swap Provider Payments for the account of the Corporation. No Swap Facility shall be entered into unless the Trustee and the Corporation shall have received a Rating Confirmation from each Rating Agency that such Swap Facility shall not adversely affect the Rating on any of the Bonds.

Creation and Continuation of Funds and Accounts

The Indenture establishes the following Funds to be held and maintained by the Trustee for the benefit of the Registered Owners:

- (a) Loan Fund, including a Tax-Exempt Loan Account and a Taxable Loan Account therein,
- (b) Revenue Fund, including a Tax-Exempt Revenue Account, a Taxable Revenue Account and a Capitalized Interest Account (including a Tax-Exempt Capitalized Interest Subaccount and a Taxable Capitalized Interest Subaccount) therein,
- (c) Debt Service Reserve Fund, including a Tax-Exempt Debt Service Reserve Account and a Taxable Debt Service Reserve Account therein; and
- (d) Cost of Issuance Fund, including a Tax-Exempt Cost of Issuance Account and a Taxable Cost of Issuance Account therein.

An Operating Fund has also been established by the Corporation. The Operating Fund shall not constitute a Fund within the meaning of the Indenture, and is held by a depository bank of the Corporation for the benefit of the Corporation; and the Registered Owners shall have no right, title or interest therein.

The Indenture also establishes a Rebate Fund to be held and maintained by the Trustee and provides that the Registered Owners shall have no right, title or interest therein.

Loan Fund

The Indenture provides that there shall be deposited into the Tax-Exempt Loan Account moneys described in a Supplemental Indenture from proceeds of any Tax-Exempt Bonds and moneys transferred thereto from the Tax-Exempt Revenue Account, moneys transferred thereto from the Tax-Exempt Debt Service Reserve Account and moneys transferred thereto from the Tax-Exempt Cost of Issuance Account, and that there shall be deposited in the Taxable Loan Account moneys described in a Supplemental Indenture from proceeds of any Taxable Bonds and moneys transferred thereto from the Taxable Revenue Account, moneys transferred thereto from the Taxable Debt Service Reserve Account, moneys transferred thereto from the Taxable Cost of Issuance Account and any other moneys of the Corporation specified in a Corporation Order or a Supplemental Indenture. Financed Eligible Loans shall be accounted for as a part of the Loan Fund.

Moneys on deposit in the Loan Fund shall be used, upon Corporation Order, solely (a) to redeem Bonds in accordance with the provisions of any Supplemental Indenture; (b) subject to the succeeding paragraph, to make transfers to the Revenue Fund, the Debt Service Reserve Fund or the Operating Fund; (c) to originate Eligible Loans; and (d) to acquire Eligible Loans. Any such Corporation Order shall state that such proposed use of moneys in the Loan Fund is in compliance with the provisions of the Indenture. If the Corporation determines that all or any portion of such moneys cannot be so used, then an Authorized Officer of the Corporation may by Corporation Order direct the Trustee to redeem Bonds in accordance with any Supplemental Indenture.

The Indenture provides that, (i) notwithstanding the foregoing, if on any Bond Payment Date there are not sufficient moneys on deposit in the Tax-Exempt Revenue Account, subsequent to the completion of any transfers from the applicable subaccount of the Capitalized Interest Account on that date, to make the transfers described in

the second paragraph and in clauses (a) through (h) of the fourth paragraph under the caption “— Revenue Fund – *Tax-Exempt Revenue Account*” below, then an amount equal to any such deficiency shall be transferred directly from the Tax-Exempt Loan Account to the Tax-Exempt Revenue Account or, if and to the extent so directed by a Corporation Order: (A) shall be transferred directly to the Operating Fund in an amount not in excess of the amount then permitted to be transferred thereto from the Tax-Exempt Revenue Account as described under the second paragraph under the caption “— Revenue Fund—*Tax-Exempt Revenue Account*” below; and (B) shall be transferred directly to the Tax-Exempt Debt Service Revenue Account in an amount not in excess of the amount then required to be transferred thereto from the Tax-Exempt Revenue Account as described in clause (h) of the fourth paragraph under the caption “— Revenue Fund – *Tax-Exempt Revenue Account*”; and (ii) if on any Bond Payment Date there are not sufficient moneys on deposit in the Taxable Revenue Account, subsequent to the completion of any transfers from the applicable subaccount of the Capitalized Interest Account on that date, to make the transfers described the second paragraph and in clauses (a) through (g) of the fourth paragraph under the caption “— Revenue Fund – *Taxable Revenue Account*” below, then an amount equal to any such deficiency shall be transferred directly from the Taxable Loan Account to the Taxable Revenue Account or, if and to the extent so directed by a Corporation Order: (A) shall be transferred directly to the Operating Fund in an amount not in excess of the amount then permitted to be transferred thereto from the Taxable Revenue Account as described in the second paragraph under the caption “— Revenue Fund – *Taxable Revenue Account*” below; and (B) shall be transferred directly to the Taxable Debt Service Revenue Account in an amount not in excess of the amount then required to be transferred thereto from the Taxable Revenue Account as described in clause (g) of the fourth paragraph under the caption “—Revenue Fund – *Taxable Revenue Account*”.

Financed Eligible Loans shall be sold, transferred or otherwise disposed of (including transfers or sales to other trust estates) by the Trustee free from the lien of the Indenture at any time pursuant to a Corporation Order and if the Trustee is provided with the following:

(a) a Corporation Order certifying the sale price and directing that Financed Eligible Loans be sold, assigned, transferred, conveyed or otherwise disposed of and delivered to:

(i) if the Eligible Loan is a Higher Education Act Eligible Loan and the Act requires a Higher Education Act Eligible Loan to be held only by an Eligible Lender, an Eligible Lender under the Act whose name shall be specified;

(ii) the trustee under another indenture securing bonds issued by the Corporation whose name shall be specified in such Corporation Order; or

(iii) such other Person as designated by the Corporation; and

(b) a certificate signed by an Authorized Officer of the Corporation to the effect that:

(i) the disposition price is equal to or in excess of the principal amount thereof (plus accrued interest) or equal to or in excess of the purchase price paid by the Corporation for such Financed Eligible Loan (less Recoveries of Principal with respect to such Financed Eligible Loan, and plus accrued interest); or

(ii) the disposition price is lower than would be permitted under clause (i), and (A) the Corporation reasonably believes that the Revenues expected to be received (after giving effect to such disposition) would be at least equal to the Revenues expected to be received assuming no such sale, transfer or other disposition occurred, or (B) the Corporation shall remain able to pay debt service on the Bonds and make payment on any other Obligations on a timely basis (after giving effect to such sale, transfer or other disposition) whereas it would not have been able to do so on a timely basis if it had not sold, transferred or disposed of the Financed Eligible Loans at such discounted amount, or (C) the Aggregate Market Value of the Trust Estate (after giving effect to such sale, transfer or other disposition) shall be at least equal to 100% of the aggregate principal amount of and accrued interest to the date of calculation on the Obligations then Outstanding and all other liabilities due and owing under the Indenture), or (D) the amount for which the Financed Eligible Loans are being sold, assigned, transferred or disposed of is equal

to or greater than the purchase price paid by the Corporation for such Financed Eligible Loans (less Recoveries of Principal with respect to such Financed Eligible Loans).

Financed Eligible Loans shall also be sold, transferred or otherwise disposed of by the Trustee pursuant to a Corporation Order in which the Corporation determines that such disposition of Financed Eligible Loans from the Trust Estate is necessary in order to avoid the occurrence of an Event of Default hereunder or to avoid any default in the payment obligations of the Corporation under any reimbursement agreement, in such amount and at such times and prices as may be specified in such Corporation Order. The Trustee, following receipt of the foregoing and, if such Financed Eligible Loans being sold, transferred or disposed of are Higher Education Act Eligible Loans, a certificate of the Corporation indicating that such purchaser or transferee is one of the entities described in clause (a) above, shall deliver such Financed Eligible Loans free from the lien of the Indenture upon the receipt of the purchase price or consideration specified in the Corporation Order, in compliance with the foregoing. The Trustee shall deposit the proceeds of any such sale, transfer or other disposition into the Fund or Account with respect to which such Financed Eligible Loans were attributable. Notwithstanding any of the foregoing provisions of this paragraph, the Corporation shall not direct the Trustee to sell, transfer or otherwise dispose of Financed Eligible Loans if such disposition would have an adverse effect on the exclusion from gross income of interest on the Tax-Exempt Bonds for federal income tax purposes.

The Corporation may at any time make additional deposits to the Loan Fund for the purpose of purchasing Eligible Loans from a Qualifying Institution in connection with such Qualifying Institution's repayment of its Qualified Institution Loan. Anything in the Indenture to the contrary notwithstanding, any such amounts deposited by the Corporation shall be repaid to the Corporation, without any further authorization or direction, from and to the extent of amounts paid by such Qualified Institution as repayment of its Qualified Institution Loan.

Revenue Fund

Tax-Exempt Revenue Account.

The Indenture provides that the Trustee shall deposit into the Tax-Exempt Revenue Account all Revenues derived from Financed Eligible Loans originated or acquired by the Corporation from moneys on deposit in the Tax-Exempt Loan Account, and all other Revenue derived from moneys or assets on deposit in the Tax-Exempt Loan Account, the Tax-Exempt Debt Service Reserve Account, the Tax-Exempt Revenue Account and all Swap Provider Payments with respect to Tax-Exempt Bonds and any other amounts deposited thereto upon receipt of a Corporation Order.

Upon receipt of a Corporation Order directing the same, moneys in the Tax-Exempt Revenue Account shall be used, on any date, to pay Program Expenses or, subject to the restrictions described below under the caption "— Operating Fund", to make a transfer to the Operating Fund to pay Program Expenses. Each Corporation Order directing the Trustee to use moneys in the Tax-Exempt Revenue Account to pay Program Expenses shall (a) include a statement that the amount requisitioned is in compliance with the provisions of the Indenture, including any applicable limitations set forth therein, or (b) shall be accompanied by a Rating Confirmation with respect to the payment of such Program Expenses.

All Recoveries of Principal constituting a portion of the Revenue deposited in the Tax-Exempt Revenue Account and so identified to the Trustee by the Corporation, during a Recycling Period, shall be transferred, as soon as practicable, to the Tax-Exempt Loan Account unless there is a deficiency in the Tax-Exempt Debt Service Reserve Account, in which case they shall be transferred to the Tax-Exempt Debt Service Reserve Account to the extent of such deficiency, or unless there is a deficiency in the Taxable Debt Service Reserve Account, in which case they shall be transferred to the Taxable Debt Service Reserve Account following any other transfers thereto from the Taxable Revenue Account, to the extent of such deficiency. Upon receipt of a Corporation Order directing the same, moneys in the Tax-Exempt Revenue Account shall be used, on any date, to fund the acquisition of Add-on Consolidation Loans during the related Add-on Period to the extent moneys are not otherwise available therefor in the Tax-Exempt Loan Account.

In addition, on each Bond Payment Date and Swap Payment Date, and on any other Business Day as directed by the Corporation with respect to clause (a), money in the Tax-Exempt Revenue Account shall be used and

transferred to other Funds or Persons in the following order of precedence (any moneys not so transferred or paid to remain in the Tax-Exempt Revenue Account until subsequently applied):

(a) to the Rebate Fund, upon receipt of a Corporation Order and, if necessary to comply with any Tax Document with respect to rebate of Excess Interest;

(b) on a parity basis, to pay interest due on any Tax-Exempt Senior Bonds on such Bond Payment Date and any Corporation Swap Payment secured on a parity with the Tax-Exempt Senior Bonds due on such Swap Payment Date, and to the extent there are insufficient moneys available in the Taxable Revenue Account, to pay interest due on any Taxable Senior Bonds on such Bond Payment Date and any Corporation Swap Payment secured on a parity with the Taxable Senior Bonds due on such Swap Payment Date;

(c) on a parity basis, to pay the principal of or premium, if any, on any Tax-Exempt Senior Bonds due on such Bond Payment Date (if such Bond Payment Date is a Stated Maturity or mandatory sinking fund redemption date with respect to such Tax-Exempt Senior Bonds), and to the extent there are insufficient moneys available in the Taxable Revenue Account, to pay the principal of or premium, if any, on any Taxable Senior Bonds due on such Bond Payment Date (if such Bond Payment Date is a Stated Maturity or mandatory sinking fund redemption date with respect to such Taxable Senior Bonds);

(d) on a parity basis, to pay interest due on any Tax-Exempt Subordinate Bonds on such Bond Payment Date and any Corporation Swap Payment secured on a parity with the Tax-Exempt Subordinate Bonds due on such Swap Payment Date, and to the extent there are insufficient moneys available in the Taxable Revenue Account, to pay interest due on any Taxable Subordinate Bonds on such Bond Payment Date and any Corporation Swap Payment secured on a parity with the Taxable Subordinate Bonds due on such Swap Payment Date;

(e) on a parity basis, to pay the principal of or premium, if any, on any Tax-Exempt Subordinate Bonds due on such Bond Payment Date (if such Bond Payment Date is a Stated Maturity or mandatory sinking fund redemption date with respect to such Tax-Exempt Subordinate Bonds), and to the extent there are insufficient moneys available in the Taxable Revenue Account, to pay the principal of or premium, if any, on any Taxable Subordinate Bonds due on such Bond Payment Date (if such Bond Payment Date is a Stated Maturity or mandatory sinking fund redemption date with respect to such Taxable Subordinate Bonds);

(f) on a parity basis, to pay interest on Tax-Exempt Junior-Subordinate Bonds on such Bond Payment Date and to make any Corporation Swap Payment secured on a parity with such Tax-Exempt Junior-Subordinate Bonds due on such Swap Payment Date, and to the extent there are insufficient moneys available in the Taxable Revenue Account, to pay interest due on any Taxable Junior-Subordinate Bonds on such Bond Payment Date and any Corporation Swap Payment secured on a parity with the Taxable Junior-Subordinate Bonds due on such Swap Payment Date;

(g) on a parity basis, to pay the principal of or premium, if any, on any Tax-Exempt Junior-Subordinate Bonds due on such Bond Payment Date (if such Bond Payment Date is a Stated Maturity or mandatory sinking fund redemption date with respect to such Tax-Exempt Junior-Subordinate Bonds), and to the extent there are insufficient moneys available in the Taxable Revenue Account, to pay the principal of or premium, if any, on any Taxable Junior-Subordinate Bonds due on such Bond Payment Date (if such Bond Payment Date is a Stated Maturity or mandatory sinking fund redemption date with respect to such Taxable Junior-Subordinate Bonds);

(h) on a parity basis, to the Tax-Exempt Debt Service Reserve Account the amount, if any, required to restore a deficiency therein as required by the Indenture and to the Taxable Debt Service Reserve Account the amount, if any, required to restore a deficiency therein as required by the Indenture;

(i) upon receipt of a Corporation Order, to pay Termination Payments (other than Priority Termination Payments) due on a Swap Payment Date and any other unpaid Corporation Swap Payment relating to Tax-Exempt Bonds in the following order of priority: first, to a Swap Provider who has provided a Swap Facility secured on a parity with the Tax-Exempt Senior Bonds; second, to a Swap Provider who has provided a Swap Facility secured on a parity with the Tax-Exempt Subordinate Bonds; third, to a Swap Provider who has provided a Swap Facility secured on a parity with the Tax-Exempt Junior-Subordinate Bonds;

(j) at the option of the Corporation and upon Corporation Order, to the Tax-Exempt Loan Account; and

(k) at the option of the Corporation and upon Corporation Order, to the Corporation to the extent permitted by the Indenture as described below under the caption “—Transfers to the Corporation.”

Taxable Revenue Account.

The Indenture provides that the Trustee shall deposit into the Taxable Revenue Account all Revenues derived from Financed Eligible Loans originated or acquired by the Corporation from moneys on deposit in the Taxable Loan Account, and all other Revenue derived from moneys or assets on deposit in the Taxable Loan Account, the Taxable Debt Service Reserve Account, the Taxable Revenue Account, all Swap Provider Payments with respect to Taxable Bonds and any other amounts deposited thereto upon receipt of a Corporation Order.

Upon receipt of a Corporation Order directing the same, moneys in the Taxable Revenue Account shall be used, on any date, to pay Program Expenses or, subject to the restrictions described below under the caption “—Operating Fund”, to make a transfer to the Operating Fund to pay Program Expenses. Each Corporation Order directing the Trustee to use moneys in the Taxable Revenue Account to pay Program Expenses shall (a) include a statement that the amount requisitioned is in compliance with the provisions of the Indenture, including any applicable limitations set forth therein, or (b) shall be accompanied by a Rating Confirmation with respect to the payment of such Program Expenses.

All Recoveries of Principal constituting a portion of the Revenue deposited in the Taxable Revenue Account and so identified to the Trustee by the Corporation, during a Recycling Period, shall be transferred, as soon as practicable, to the Taxable Loan Account unless there is a deficiency in the Taxable Debt Service Reserve Account, in which case they shall be transferred to the Taxable Debt Service Reserve Account to the extent of such deficiency, or unless there is a deficiency in the Tax-Exempt Debt Service Reserve Account, in which case they shall be transferred to the Tax-Exempt Debt Service Reserve Account following any other transfers thereto from the Tax Exempt Revenue Account, to the extent of such deficiency. Upon receipt of a Corporation Order directing the same, moneys in the Taxable Revenue Account shall be used, on any date, to fund the acquisition of Add-on Consolidation Loans during the related Add-on Period to the extent moneys are not otherwise available therefor in the Taxable Loan Account.

In addition, on each Bond Payment Date and Swap Payment Date, money in the Taxable Revenue Account shall be used and transferred to other Funds or Persons in the following order of precedence (any money not so transferred or paid to remain in the Taxable Revenue Account until subsequently applied):

(a) on a parity basis, to pay interest due on any Taxable Senior Bonds on such Bond Payment Date and any Corporation Swap Payment secured on a parity with the Taxable Senior Bonds due on such Swap Payment Date, and to the extent there are insufficient moneys available in the Tax-Exempt Revenue Account, to pay interest due on any Tax-Exempt Senior Bonds on such Bond Payment Date and any Corporation Swap Payment secured on a parity with the Tax-Exempt Senior Bonds due on such Swap Payment Date;

(b) on a parity basis, to pay the principal of or premium, if any, on any Taxable Senior Bonds due on such Bond Payment Date (if such Bond Payment Date is a Stated Maturity or mandatory sinking fund redemption date with respect to such Taxable Senior Bonds), and to the extent there are insufficient

moneys available in the Tax-Exempt Revenue Account, to pay the principal of or premium, if any, on any Tax-Exempt Senior Bonds due on such Bond Payment Date (if such Bond Payment Date is a Stated Maturity or mandatory sinking fund redemption date with respect to such Tax-Exempt Bonds);

(c) on a parity basis, to pay interest due on any Taxable Subordinate Bonds on such Bond Payment Date and any Corporation Swap Payment secured on a parity with the Taxable Subordinate Bonds due on such Swap Payment Date, and to the extent there are insufficient moneys available in the Tax-Exempt Revenue Account, to pay interest due on any Tax-Exempt Subordinate Bonds on such Bond Payment Date and any Corporation Swap Payment secured on a parity with the Tax-Exempt Subordinate Bonds due on such Swap Payment Date;

(d) on a parity basis, to pay the principal of or premium, if any, on any Taxable Subordinate Bonds due on such Bond Payment Date (if such Bond Payment Date is a Stated Maturity or mandatory sinking fund redemption date with respect to such Taxable Subordinate Bonds), and to the extent there are insufficient moneys available in the Tax-Exempt Revenue Account, to pay the principal of or premium, if any, on any Tax-Exempt Subordinate Bonds due on such Bond Payment Date (if such Bond Payment Date is a Stated Maturity or mandatory sinking fund redemption date with respect to such Tax-Exempt Subordinate Bonds);

(e) on a parity basis, to pay interest on Taxable Junior-Subordinate Bonds on such Bond Payment Date and to make any Corporation Swap Payment secured on a parity with such Taxable Junior-Subordinate Bonds due on such Swap Payment Date, and to the extent there are insufficient moneys available in the Tax-Exempt Revenue Account, to pay interest due on any Tax-Exempt Junior-Subordinate Bonds on such Bond Payment Date and any Corporation Swap Payment secured on a parity with the Tax-Exempt Junior-Subordinate Bonds due on such Swap Payment Date;

(f) on a parity basis, to pay principal the principal of or premium, if any, on any Taxable Junior-Subordinate Bonds due on such Bond Payment Date (if such Bond Payment Date is a Stated Maturity or mandatory sinking fund redemption date with respect to such Taxable Junior-Subordinate Bonds), and to the extent there are insufficient moneys available in the Tax-Exempt Revenue Account, to pay the principal of or premium, if any, on any Tax-Exempt Junior-Subordinate Bonds due on such Bond Payment Date (if such Bond Payment Date is a Stated Maturity or mandatory sinking fund redemption date with respect to such Tax-Exempt Junior-Subordinate Bonds);

(g) on a parity basis to the Taxable Debt Service Reserve Account the amount, if any, required to restore a deficiency therein as required by the Indenture and to the Tax-Exempt Debt Service Reserve Account the amount, if any, required to restore a deficiency therein as required by the Indenture;

(h) upon receipt of a Corporation Order, to pay interest accrued on the interest carryover amounts of the Taxable Senior Bonds, the interest carryover amounts of the Taxable Senior Bonds, interest accrued on the interest carryover amounts of the Taxable Subordinate Bonds, the interest carryover amounts of the Taxable Subordinate Bonds, interest accrued on the interest carryover amounts of the Taxable Junior-Subordinate Bonds, and the interest carryover amounts of the Taxable Junior-Subordinate Bonds, in that order of priority;

(i) upon receipt of a Corporation Order, to pay Termination Payments (other than Priority Termination Payments) due on a Swap Payment Date and any other unpaid Corporation Swap Payment relating to Taxable Bonds in the following order of priority: first, to a Swap Provider who has provided a Swap Facility secured on a parity with the Taxable Senior Bonds; second, to a Swap Provider who has provided a Swap Facility secured on a parity with the Taxable Subordinate Bonds; third, to a Swap Provider who has provided a Swap Facility secured on a parity with the Taxable Junior-Subordinate Bonds;

(j) at the option of the Corporation and upon Corporation Order, to the Taxable Loan Account; and

(k) at the option of the Corporation and upon Corporation Order, to the Corporation to the extent permitted by the Indenture as described below under the caption “—Transfers to the Corporation.”

Capitalized Interest Account.

The Indenture provides that the Trustee shall deposit to the Capitalized Interest Account the respective amounts, if any, specified in each Supplemental Indenture authorizing the issuance of Bonds as to be credited to the subaccounts in the Capitalized Interest Account specified in such Supplemental Indenture. On each Bond Payment Date: (i) amounts on deposit in the Tax-Exempt Capitalized Interest Subaccount shall be used, to the extent there are insufficient moneys in the Tax-Exempt Revenue Account, to make the transfers described in clauses (b), (d) and (f) of the fourth paragraph under the caption “—Revenue Fund—*Tax-Exempt Revenue Account*,” with respect to the Series of Tax-Exempt Bonds for which such amounts are deposited, to pay the amount of such deficiency directly from the Capitalized Interest Account, (ii) amounts on deposit in the Taxable Capitalized Interest Subaccount shall be used, to the extent there are insufficient moneys in the Taxable Revenue Account, to make the transfers described in clauses (a), (c) and (e) of the fourth paragraph under the caption “—Revenue Fund—*Taxable Revenue Account*,” to pay the amount of such deficiency directly from the Capitalized Interest Account, or (iii) with respect to any amounts on deposit in the Capitalized Interest Account, as otherwise provided in a Supplemental Indenture.

Debt Service Reserve Fund

Tax-Exempt Debt Service Reserve Fund

The Trustee shall deposit to the Tax-Exempt Debt Service Reserve Account the amount (or a Funding Instrument in lieu thereof), if any, necessary to comply with each Supplemental Indenture authorizing the issuance of Outstanding Tax-Exempt Bonds. On each Bond Payment Date, to the extent there are insufficient moneys in the Tax-Exempt Revenue Account, subsequent to the completion of any transfers from the applicable subaccount of the Capitalized Interest Account or from the Tax-Exempt Loan Account on that date, to make the transfers described in clauses (b) through (g) of the fourth paragraph under the caption “—Revenue Fund—*Tax-Exempt Revenue Account*” above, then the amount of such deficiency shall be paid directly from the Tax-Exempt Debt Service Reserve Account.

If the Tax-Exempt Debt Service Reserve Account is used for the purposes described in the paragraph above or is otherwise less than the Debt Service Reserve Fund Requirement, the Trustee shall restore the Tax-Exempt Debt Service Reserve Account to the Debt Service Reserve Fund Requirement with respect thereto by transfers from the Tax-Exempt Revenue Account as described in the third paragraph under the caption “—Revenue Fund—*Tax-Exempt Revenue Account*” and pursuant to clause (h) of the fourth paragraph under the caption “—Revenue Fund—*Tax-Exempt Revenue Account*” above and from the Taxable Revenue Account as described in the third paragraph under the caption “—Revenue Fund—*Taxable Revenue Account*” and pursuant to clause (g) of the fourth paragraph under the caption “—Revenue Fund—*Taxable Revenue Account*” above; provided, however, that principal and interest owing on any Funding Instrument shall first be paid (an paid pro rata if there is more than one Funding Instrument) and after all such amounts are paid in full, amounts necessary to fund the Tax-Exempt Debt Service Reserve Account to the applicable Debt Service Reserve Fund Requirement, after taking into account the amount available under the Funding Instrument, shall be deposited into the Tax-Exempt Debt Service Reserve Account in accordance with this paragraph. If the full amount required to restore the Tax-Exempt Debt Service Reserve Account to the applicable Debt Service Reserve Fund Requirement is not available in such Accounts on such next succeeding Bond Payment Date, the Trustee shall continue to transfer funds from such Accounts as they become available and in accordance with the preceding sentence until the deficiency in the Tax-Exempt Debt Service Reserve Account has been eliminated.

On any day that the amount in the Tax-Exempt Debt Service Reserve Account exceeds the Debt Service Reserve Fund Requirement with respect thereto for any reason, the Trustee, at the direction of the Corporation, shall transfer the excess to the Tax-Exempt Loan Account or the Tax-Exempt Revenue Account.

Taxable Debt Service Reserve Fund

The Trustee shall deposit to the Taxable Debt Service Reserve Account the amount (or a Funding Instrument in lieu thereof), if any, necessary to comply with each Supplemental Indenture authorizing the issuance of Outstanding Taxable Bonds. On each Bond Payment Date, to the extent there are insufficient moneys in the Taxable Revenue Account, subsequent to the completion of any transfers from the applicable subaccount of the Capitalized Interest Account or from the Taxable Loan Account on that date, to make the transfers described in clauses (a) through (f) of the fourth paragraph under the caption "*—Revenue Fund—Taxable Revenue Account*" above, then the amount of such deficiency shall be paid directly from the Taxable Debt Service Reserve Account.

If the Taxable Debt Service Reserve Account is used for the purposes described in the paragraph above or is otherwise less than the Debt Service Reserve Fund Requirement, the Trustee shall restore the Taxable Debt Service Reserve Account to the Debt Service Reserve Fund Requirement with respect thereto by transfers from the Taxable Revenue Account as described in the third paragraph under the caption "*—Revenue Fund—Taxable Revenue Account*" and pursuant to clause (g) of the fourth paragraph under the caption "*—Revenue Fund—Taxable Revenue Account*" above and from the Tax-Exempt Revenue Account as described in the third paragraph under the caption "*—Revenue Fund — Tax-Exempt Revenue Account*" and pursuant to clause (h) of the fourth paragraph under the caption "*—Revenue Fund—Tax-Exempt Revenue Account*" above; provided, however, that principal and interest owing on any Funding Instrument shall first be paid (and paid pro rata if there is more than one Funding Instrument) and after all such amounts are paid in full, amounts necessary to fund the Taxable Debt Service Reserve Account to the applicable Debt Service Reserve Fund Requirement, after taking into account the amount available under the Funding Instrument, shall be deposited into the Taxable Debt Service Reserve Account in accordance with this paragraph. If the full amount required to restore the Taxable Debt Service Reserve Account to the applicable Debt Service Reserve Fund Requirement is not available in such Accounts on such next succeeding Bond Payment Date, the Trustee shall continue to transfer funds from such Accounts as they become available and in accordance with the preceding sentence until the deficiency in the Taxable Debt Service Reserve Account has been eliminated.

On any day that the amount in the Taxable Debt Service Reserve Account exceeds the Debt Service Reserve Fund Requirement with respect thereto for any reason, the Trustee, at the direction of the Corporation, shall transfer the excess to the Taxable Loan Account or the Taxable Revenue Account.

Cost of Issuance Fund

The Trustee shall deposit into the Tax-Exempt Cost of Issuance Account moneys described in any Supplemental Indenture from proceeds of any Tax-Exempt Bonds and any other moneys of the Corporation specified in a Corporation Order or a Supplemental Indenture. The Trustee shall deposit into the Taxable Cost of Issuance Account moneys described in any Supplemental Indenture from proceeds of any Taxable Bonds and any other moneys of the Corporation specified in a Corporation Order or a Supplemental Indenture.

Moneys in the Cost of Issuance Fund shall be used, upon Corporation Order, to pay costs of issuance of the Bonds or to reimburse the Corporation for payment of costs of issuance of the applicable Bonds for which such moneys are deposited or as otherwise set forth in a Supplemental Indenture. If the Corporation determines that all or any portion of such moneys cannot be so used, then an Authorized Officer of the Corporation may by Corporation Order direct the Trustee to transfer such remaining amounts in the Tax-Exempt Cost of Issuance Account to the Tax-Exempt Loan Account and such remaining amounts in the Taxable Cost of Issuance Account to the Taxable Loan Account.

Rebate Fund

The Trustee shall withdraw from the Tax-Exempt Revenue Account and applicable Tax Documents, and deposit to the Rebate Fund amounts such that the balance held in the Rebate Fund after such deposit is equal to the Rebate Amount as then calculated. Computation of the amounts on deposit in each Fund and of the Rebate Amount shall be furnished to the Trustee by or on behalf of the Corporation in accordance with any Tax Document, as the same may be amended or supplemented in accordance with its terms.

The Trustee, upon receipt of a Corporation Order in accordance with any Tax Document, shall make payments to the United States of America from the Rebate Fund as required in accordance with the applicable Tax Documents.

Operating Fund

Trustee shall deposit to the Operating Fund or transfer to the Corporation's depository bank if not the Trustee, amounts specified in Corporation Orders with respect thereto from the sources set forth in the Indenture. The Operating Fund is a special fund created with a depository bank of the Corporation and shall be used to pay Program Expenses. The Operating Fund shall be held by such depository bank of the Corporation, and no Registered Owner shall have any right, title or interest in the Operating Fund.

The Corporation shall provide the Trustee with a Corporation Order from time to time as to the amounts to be transferred to the Operating Fund. The amount deposited in the Operating Fund by transfer from the Revenue Fund or from the Loan Fund, and the schedule of deposits shall be determined by the Corporation, and each Corporation Order directing such transfers and deposits shall include a statement that the amount requisitioned, is in compliance with the provisions of the Indenture and all Supplemental Indentures thereto, including any applicable limitations set forth therein, or shall be accompanied by a Rating Confirmation with respect to such schedule of transfers and deposits.

The Indenture provides that, as of the initial Issue Date of the 2006 Bonds, amounts transferred to the Operating Fund from the Revenue Fund and, if necessary, the Loan Fund and amounts paid from the Revenue Fund, as amended, to pay Program Expenses (other than payments required under the Act on Financed Eligible Loans) on a monthly basis may not exceed: (i) one-twelfth of 1.35% of the outstanding principal amount of Financed Eligible Loans held in the Tax Exempt Loan Account at the end of the preceding month plus one-twelfth of 1.20% of the outstanding principal amount of Financed Eligible Loans held in the Taxable Loan Account at the end of the preceding month; or (ii) such other amount as may be established by operation of the last delivered to the Trustee of: (a) the most recent Supplemental Indenture authorizing the issuance of Bonds addressing such requirement; or (b) the most recent Corporation Order addressing such amount accompanied by a Rating Confirmation.

Upon the receipt of such Corporation Order, the Trustee shall withdraw the amount requisitioned from the Revenue Fund or the Loan Fund (or so much thereof as is then on deposit in such Funds) and transfer the same into the Operating Fund. The Corporation may request that the Trustee pay the requisitioned amount in installments as specified by the Corporation in the Corporation Order. In the event there is not sufficient money on hand in the Revenue Fund to transfer the full amount requisitioned, the Trustee shall notify the Corporation and the Corporation shall then determine the amount to be transferred.

Transfers to Corporation

Transfers from the Revenue Fund to the Corporation may be made in accordance with clause (k) of the fourth paragraph under the caption "*—Revenue Fund—Tax-Exempt Revenue Account*" and clause (k) of the fourth paragraph under the caption "*—Revenue Fund—Taxable Revenue Account*" above, provided, however, that no transfer of assets to the Corporation (other than pursuant to the Operating Fund as described above under the caption "Operating Fund") shall be made if there is not on deposit in the Debt Service Reserve Fund an amount equal to at least the Debt Service Reserve Fund Requirement, and unless the Trustee has received a certificate of an Authorized Officer of the Corporation stating that such transfer shall not impair the Corporation's capacity to comply with certain federal tax-related requirements of the Indenture; and further provided, that no transfer shall be made to the Corporation unless immediately after taking into account any such transfer, the Aggregate Market Value of the assets in the Trust Estate shall be not less than 107% of the unpaid principal amount of all Senior Obligations Outstanding and 102% of the unpaid principal amount of all Senior Obligations and Subordinate Obligations Outstanding, or such other percentages as are acceptable to each Rating Agency, as evidenced by a Rating Confirmation.

Investment of Funds Held by Trustee

The Indenture provides the Trustee shall invest money held for the credit of any Fund or Account or Subaccount held by the Trustee as directed in writing (or orally, confirmed in writing) by an Authorized Officer of the Corporation or a designee appointed in writing by an Authorized Officer of the Corporation, to the fullest extent practicable and reasonable and on the date directed, in Investment Securities which shall mature or be redeemed at the option of the holder prior to the respective dates when the money held for the credit of such Fund or Account shall be required for the purposes intended. In the absence of any such direction, the Trustee shall invest amounts held under the Indenture in those Investment Securities described in clause (i) of the definition of the Investment Securities.

The Investment Securities purchased shall be held by the Trustee and shall be deemed at all times to be part of such Fund or Account or Subaccounts or combination thereof, and the Trustee shall inform the Corporation of the details of all such investments. Earnings with respect to, and any net gain on the disposition of, any such investments, except on investments contained in the Rebate Fund and the Cost of Issuance Fund, shall be deposited into the Revenue Fund as described under the section captioned "—Revenue Fund." Earnings on amounts contained in the Rebate Fund shall remain in the Rebate Fund. Earnings on amounts in the Cost of Issuance Fund shall remain in the Cost of Issuance Fund. Upon direction in writing (or orally, confirmed in writing) from an Authorized Officer of the Corporation, the Trustee shall use its best efforts to sell at the best price obtainable, or present for redemption, any Investment Securities purchased by it as an investment whenever it shall be necessary to provide money to meet any payment from the applicable Fund. The Trustee shall advise the Corporation in writing, on or before the fifteenth day of each calendar month (or such later date as reasonably consented to by the Corporation), of all investments held for the credit of each Fund in its custody under the provisions of the Indenture as of the end of the preceding month and the value thereof, and shall list any investments which were sold or liquidated for less than their Value at the time thereof.

Money in any Fund constituting a part of the Trust Estate may be commingled for the purpose of making investments and may be used to pay accrued interest on Investment Securities purchased. The Trustee and its affiliates may act as principal or agent in the acquisition or disposition of any Investment Securities.

Notwithstanding the foregoing, the Trustee shall not be responsible or liable for any losses on investments made by it, or for keeping all Funds held by it, fully invested at all times, its only responsibility being to comply with the investment instructions of the Corporation or its designee in a non-negligent manner.

Purchase of Bonds

Pursuant to the Indenture, any amounts held under the Indenture which are available to redeem Bonds may instead be used to purchase Bonds Outstanding under the Indenture at the same times and subject to the same conditions (except as to price) as apply to the redemption of Bonds, except that such purchases made with amounts held under the Indenture shall be made only if the purchase price is less than the required redemption price.

Events of Default

For the purpose of the Indenture, the following events are "Events of Default":

- (a) default in the due and punctual payment of the principal of or interest on any of the Senior Bonds when due or failure to make any payment due under any other Senior Obligations when due;
- (b) if no Senior Obligations are Outstanding, default in the due and punctual payment of the principal of or interest on any of the Subordinate bonds when due or failure to make any payment due under any other Subordinate Obligations when due;
- (c) if no Senior Obligations or Subordinate Obligations are Outstanding, default in the due and punctual payment of the principal of or interest on any of the Junior-Subordinate Bonds when due or failure to make any payment due under any other Junior-Subordinate Obligations when due;

(d) default in the performance or observance of any other of the covenants, agreements, or conditions on the part of the Corporation to be kept, observed, and performed contained in the Indenture or in the Bonds, and continuation of such default for a period of 90 days after written notice thereof by the Trustee to an Authorized Officer of the Corporation; and

(e) the occurrence of an Event of Bankruptcy;

Failure to pay interest carryover amounts or interest on interest carryover amounts shall not constitute an Event of Default.

Remedy on Default; Possession of Trust Estate

The Indenture provides that, upon the happening and continuance of any Event of Default, the Trustee personally or by its attorneys or agents may enter into and upon and take possession of such portion of the Trust Estate as shall be in the custody of others, and all property comprising the Trust Estate, and each and every part thereof, and exclude the Corporation and its agents, servants, and employees wholly therefrom, and have, hold, use, operate, manage, and control the same and each and every part thereof, and in the name of the Corporation or otherwise, as they shall deem best, conduct the business thereof and exercise the privileges pertaining thereto and all the rights and powers of the Corporation and use all of the then existing Trust Estate for that purpose, and collect and receive all charges, income and Revenue of the same and of every part thereof, and after deducting therefrom all expenses incurred under the Indenture and all other proper outlays authorized thereunder, and all payments which may be made as just and reasonable compensation for its own services, and for the services of its attorneys, agents, and assistants, the Trustee shall apply the rest and residue of the money received by the Trustee as follows:

(a) if the principal of none of the Obligations shall have become due, *first*, to the payment of the interest in default on the Senior Bonds and to the payment of all Corporation Swap Payments (excluding all Termination Payments other than Priority Termination Payments) secured on a parity with the Senior Bonds then due, in order of the maturity of the installments thereof, with interest on the overdue installments thereof at the same rates, respectively, as were borne by the Senior Bonds on which such interest shall be in default and any such Corporation Swap Payments as provided in the ISDA Master Agreement then due, such payments to be made ratably to the parties entitled thereto without discrimination or preference; *second*, to the payment of the interest in default on the Subordinate Bonds and to the payment of all Corporation Swap Payments (excluding all Termination Payments other than Priority Termination Payments) secured on a parity with the Subordinate Bonds then due, in order of the maturity of the installments of such interest and any such Corporation Swap Payments, with interest on the overdue installments thereof at the same rates, respectively, as were borne by the Subordinate Bonds on which such interest shall be in default and any such Corporation Swap Payments as provided in the ISDA Master Agreement then due, such payments to be made ratably to the parties entitled thereto without discrimination or preference; *third*, to the payment of the interest in default on the Junior Subordinate Bonds and to the payment of all Corporation Swap Payments (excluding all Termination Payments other than Priority Termination Payments) secured on a parity with such Junior-Subordinate Bonds then due, in order of the maturity of the installments of such interest and any such Corporation Swap Payments, with interest on the overdue installments thereof at the same rates, respectively, as were borne by the Junior-Subordinate Bonds on which such interest shall be in default and any such Corporation Swap Payments as provided in the ISDA Master Agreement then due, such payments to be made ratably to the parties entitled thereto without discrimination or preference, except as may be provided in a Supplemental Indenture; *fourth*, to pay interest accrued on the carryover amounts of the Senior Bonds, the carryover amounts of the Senior Bonds, interest accrued on the carryover amounts of the Subordinate Bonds, the carryover amounts of the Subordinate Bonds, interest accrued on the carryover amounts of the Junior-Subordinate Bonds, and the carryover amounts of the Junior-Subordinate Bonds, in that order of priority; *fifth*, to pay unpaid Termination Payments (other than Priority Termination Payments) due under a Swap Facility secured on a parity with the Senior Bonds; *sixth*, to pay unpaid Termination Payments (other than Priority Termination Payments) due under a Swap Facility secured on a parity with the Subordinate Bonds; and, *seventh*, to pay unpaid Termination Payments (other than Priority Termination Payments) due under a Swap Facility secured on a parity with the Junior-Subordinate Bonds; and

(b) if the principal of any of the Obligations shall have become due by declaration of acceleration or otherwise, *first*, to the payment of the interest in default on the Senior Bonds and all Corporation Swap Payments

(excluding all Termination Payments other than Priority Termination Payments) secured on a parity with the Senior Bonds then due, in the order of the maturity of the installments thereof, with interest on overdue installments thereof at the same rates, respectively, as were borne by the Senior Bonds on which such interest shall be in default and such Corporation Swap Payments as provided in the ISDA Master Agreement then due, as the case may be; *second*, to the payment of the principal of all Senior Bonds then due and any amount owed to a Swap Provider secured on a parity with Senior Obligations under the ISDA Master Agreement, such payments to be made ratably to the parties entitled thereto without discrimination or preference; *third*, to the payment of the interest in default on the Subordinate Bonds and all Corporation Swap Payments (excluding all Termination Payments other than Priority Termination Payments) secured on a parity with the Subordinate Bonds then due, in the order of the maturity of the installments thereof with interest on overdue installments thereof at the same rates, respectively, as were borne by the Subordinate Bonds on which such interest shall be in default and such Corporation Swap Payments as provided in the ISDA Master Agreement then due, as the case may be; *fourth*, to the payment of the principal of all Subordinate Bonds then due and any amount owed to a Swap Provider secured on a parity with Subordinate Obligations under the ISDA Master Agreement, such payments to be made ratably to the parties entitled thereto without discrimination or preference; *fifth*, to the payment of the interest in default on the Junior-Subordinate Bonds and all Corporation Swap Payments (excluding all Termination Payments other than Priority Termination Payments) secured on a parity with such Junior-Subordinate Bonds then due, in the order of the maturity of the installments thereof, with interest on overdue installments thereof at the same rates, respectively, as were borne by the Junior-Subordinate Bonds on which such interest shall be in default and such Corporation Swap Payments as provided in the ISDA Master Agreement then due, as the case may be; *sixth*, to the payment of the principal of all Junior-Subordinate Bonds then due and any amount owed to a Swap Provider secured on a parity with Junior-Subordinate Obligations under the ISDA Master Agreement, such payments to be made ratably to the parties entitled thereto without discrimination or preference, except as may be provided in a Supplemental Indenture; and *seventh*, to pay interest accrued on the carryover amounts of the Senior Bonds, the carryover amounts of the Senior Bonds, interest accrued on the carryover amounts of the Subordinate Bonds, the carryover amounts of the Subordinate Bonds, interest accrued on the carryover amounts of the Junior-Subordinate Bonds, the carryover amounts of the Junior-Subordinate Bonds, in that order of priority.

Remedies on Default; Sale of Trust Estate

The Indenture provides that, upon the happening of any Event of Default, the Trustee may proceed to protect and enforce the rights of the Trustee and the Registered Owners in such manner as counsel for the Trustee may advise, whether for the specific performance of any covenant, condition, agreement or undertaking herein contained, or in aid of the execution of any power herein granted, or for the enforcement of such other appropriate legal or equitable remedies as, in the opinion of such counsel, may be more effectual to protect and enforce the rights aforesaid.

The Indenture further provides that, upon the happening of any Event of Default and if the principal of all of the Outstanding Obligations shall have been declared due and payable, then and in every such case, and irrespective of whether other remedies authorized shall have been pursued in whole or in part, the Trustee may sell, with or without entry, to the highest bidder the Trust Estate, and all right, title, interest, claim and demand thereto and the right of redemption thereof, at any such place or places, and at such time or times and upon such notice and terms as may be required by law; provided, however, that no such sale shall be made unless the Trustee has received an opinion of Bond Counsel stating that such transfer shall not affect adversely the exclusion from federal income taxation of interest on the Bonds afforded by Section 103 of the Code. In addition, the Trustee may proceed to protect and enforce the rights of the Trustee and the Registered Owners of the Obligations in such manner as counsel for the Trustee may advise, whether for the specific performance of any covenant, condition, agreement or undertaking contained in the Indenture, or in aid of the execution of any power therein granted, or for the enforcement of such other appropriate legal or equitable remedies as may in the opinion of such counsel, be more effectual to protect and enforce the rights aforesaid. Subject to the Trustee's right to be provided with indemnity or other security as provided in the Indenture, the Trustee shall take any such action or actions if requested to do so in writing by the Registered Owners of at least a majority of the collective aggregate principal amount of the Highest Priority Obligations at the time Outstanding.

Appointment of Receiver

In case an Event of Default occurs, and if all of the Outstanding Obligations shall have been declared due and payable and in case any judicial proceedings are commenced to enforce any right of the Trustee or of the Registered Owners under the Indenture or otherwise, then as a matter of right, the Trustee shall be entitled to the appointment of a receiver of the Trust Estate and of the earnings, income or Revenue, rents, issues and profits thereof with such powers as the court making such appointments may confer.

Purchase of Properties by Trustee or Registered Owners

In case of any such sale of the Trust Estate, any Registered Owner or Registered Owners or committee of Registered Owners or the Trustee, may bid for and purchase such property and upon compliance with the terms of sale may hold, retain possession, and dispose of such property as the absolute right of the purchaser or purchasers without further accountability.

Accelerated Maturity

If an Event of Default shall have occurred and be continuing, the Trustee may declare, or upon the written direction by the Registered Owners of at least a majority of the collective aggregate principal amount of the Highest Priority Obligations then Outstanding, shall declare, the principal of all Obligations then Outstanding, and the interest thereon, if not previously due, immediately due and payable, anything in the Obligations or the Indenture to the contrary notwithstanding; provided, however, that a declaration of acceleration upon a default pursuant to clauses (d) under the caption "—Events of Default" above shall require the consent of 100% of the Registered Owners of all of the Obligations then Outstanding.

Remedies Not Exclusive

The remedies conferred upon or reserved to the Trustee or the Registered Owners of Obligations under the Indenture are not intended to be exclusive of any other remedy, but each remedy provided shall be cumulative and shall be in addition to every other remedy given under the Indenture or now or hereafter existing, and every power and remedy given by the Indenture to the Trustee or to the Registered Owners of Obligations, or any supplement to the Indenture, may be exercised from time to time as often as may be deemed expedient. No delay or omission of the Trustee or of any Registered Owner of Obligations to exercise any power or right arising from any default shall impair any such right or power or shall be construed to be a waiver of any such default or to be acquiescence therein.

Direction of Trustee

Upon the happening of any Event of Default, the Registered Owners of at least a majority of the collective aggregate principal amount of the Highest Priority Obligations then Outstanding, shall have the right by an instrument or instruments in writing delivered to the Trustee to direct and control the Trustee as to the method of taking any and all proceedings for any sale of any or all of the Trust Estate, or for the appointment of a receiver, if permitted by law, and may at any time cause any proceedings authorized by the terms of the Indenture to be so taken or to be discontinued or delayed; provided, however, that such Registered Owners shall not be entitled to cause the Trustee to take any proceedings which in the Trustee's opinion would be unjustly prejudicial to non-assenting Registered Owners of Obligations, but the Trustee shall be entitled to assume that the action requested by the Registered Owners of at least a majority of the collective aggregate principal amount of the Highest Priority Obligations then Outstanding shall not be prejudicial to any non-assenting Registered Owners unless the Registered Owners of at least a majority of the collective aggregate principal amount of the non-assenting Registered Owners of such Obligations, in writing, show the Trustee how they shall be prejudiced. Provided, however, that anything in the Indenture to the contrary notwithstanding, but subject to certain requirements therein, the Registered Owners of at least a majority of the collective aggregate principal amount of the Highest Priority Obligations then Outstanding together with the Registered Owners of at least a majority of the collective aggregate principal amount of all other Obligations then Outstanding shall have the right, at any time, by an instrument or instruments in writing executed and delivered to the Trustee, to direct the method and place of conducting all proceedings to be taken in connection with the enforcement of the terms and conditions of the Indenture, or for the appointment of a receiver or any other

proceedings, provided that such direction shall not be otherwise than in accordance with the provisions of law and of the Indenture.

Right to Enforce in Trustee

No Registered Owner of any Obligation shall have any right as such Registered Owner to institute any suit, action, or proceedings for the enforcement of the provisions of the Indenture or for the execution of any trust thereunder or for the appointment of a receiver or for any other remedy thereunder, all rights of action thereunder being vested exclusively in the Trustee, unless and until such Registered Owner shall have previously given to the Trustee written notice of a default under the Indenture, and of the continuance thereof, and also unless the Registered Owners of the requisite principal amount of the Obligations then Outstanding shall have made written request upon the Trustee and the Trustee shall have been afforded reasonable opportunity to institute such action, suit or proceeding in its own name, and unless the Trustee shall have been offered reasonable indemnity and security satisfactory to it against the costs, expenses, and liabilities to be incurred therein or thereby and the Trustee for 30 days after receipt of such notification, request, and offer of indemnity, shall have failed to institute any such action, suit or proceeding. It is understood and intended that no one or more Registered Owners of the Obligations shall have the right in any manner whatever by his or their action to affect, disturb, or prejudice the lien of the Indenture or to enforce any right thereunder except in the manner therein provided and for the equal benefit of the Registered Owners of at least a majority of the collective aggregate principal amount of the Obligations then Outstanding.

Waivers of Events of Default

The Trustee may in its discretion waive any Event of Default under the Indenture and its consequences and rescind any declaration of acceleration of Obligations, and shall do so upon the written request of the Registered Owners of at least a majority of the collective aggregate principal amount of the Highest Priority Obligations then Outstanding; provided, however, that there shall not be waived (a) any Event of Default in the payment of the principal of or premium on any Outstanding Obligations at the date of maturity or redemption thereof, or any default in the payment when due of the interest on any such Obligations, unless prior to such waiver or rescission, all arrears of interest or all arrears of payments of principal and premium, if any, and all expenses of the Trustee, in connection with such default shall have been paid or provided for or (b) any default in the payment of amounts due to the United States of America pursuant to certain covenants or any amounts due to the Trustee as indemnity as set forth in the Indenture. In case of any such waiver or rescission, or in case any proceedings taken by the Trustee on account of any such default shall have been discontinued or abandoned or determined adversely to the Trustee, then and in every such case the Corporation, the Trustee and the Registered Owners of Obligations shall be restored to their former positions and rights under the Indenture respectively, but no such waiver or rescission shall extend to or affect any subsequent or other default, or impair any rights or remedies consequent thereon.

Supplemental Indentures Not Requiring Consent of Registered Owners

The Corporation and the Trustee may, without the consent of or notice to any of the Registered Owners of any Obligations enter into any indenture or indentures supplemental to the indenture for any one or more of the following purposes:

- (a) to cure any ambiguity or defect or omission in the Indenture;
- (b) to grant to or confer upon the Trustee for the benefit of the Registered Owners any additional benefits, rights, remedies, powers or authorities that may lawfully be granted to or conferred upon the Registered Owners or the Trustee;
- (c) to subject to the Indenture additional revenues, properties or collateral;
- (d) to modify, amend or supplement the Indenture or any indenture supplemental hereto in such manner as to permit the qualification thereof under the Trust Indenture Act of 1939 or any similar federal statute hereafter in effect or to permit the qualification of the Bonds for sale under the securities laws of the United States of America or of any of the states of the United States of America, and, if they so determine, to add to the Indenture or

any indenture supplemental hereto such other terms, conditions and provisions as may be permitted by said Trust Indenture Act of 1939 or similar federal statute;

(e) to evidence the appointment of a separate or co-Trustee or a co-registrar or transfer agent or the succession of a new Trustee, or any additional or substitute Guaranty Agency or Servicer;

(f) to add such provisions to or to amend such provisions of the Indenture as may in the judgment of the Corporation be necessary or desirable to assure implementation of the Program in conformance with the Act if in the judgment of the Corporation such provisions shall in no way impair the existing security of the Registered Owners of any Outstanding Obligations;

(g) to make any change as shall be necessary in order to obtain and maintain for any of the Bonds an investment grade Rating from a nationally recognized rating service, which changes, in the opinion of the Trustee, are not to the prejudice of the Registered Owner of any of the Obligations;

(h) to make any changes necessary to comply with the Act, the Regulations or the Code and the regulations promulgated thereunder;

(i) to provide for the issuance of Additional Bonds pursuant to the provisions of the Indenture, including the creation of appropriate Funds, Accounts and Subaccounts with respect to such Additional Bonds;

(j) to make the terms and provisions of the Indenture, including the lien and security interest granted therein, applicable to a Swap Facility, and to modify the Indenture with respect to any particular Swap Facility;

(k) to create any additional Funds or Accounts or Subaccounts under the Indenture deemed by the Trustee to be necessary or desirable;

(l) to amend the Indenture to allow for any Bonds to be supported by a letter of credit or insurance policy or a liquidity agreement, including amendments with respect to repayment to such a provider on a parity with any Bonds or Swap Facility and providing rights to such provider under the Indenture, including with respect to defaults and remedies;

(m) to make any changes in connection with the use of moneys in the Trust Estate to finance Alternative Student Loans or Qualified Institution Loans, subject to receipt of a Rating Confirmation;

(n) to make any other change with a Rating Confirmation; or

(o) to make any other change which, in the judgment of the Trustee, is not to the material prejudice of the Registered Owners of any Obligations.

Supplemental Indentures Requiring Consent of Registered Owners

Exclusive of Supplemental Indentures described above and subject to the terms and provisions described below, and not otherwise, the Registered Owners of not less than a majority of the collective aggregate principal amount of the Obligations then Outstanding which are affected shall have the right, from time to time, to consent to and approve the execution by the Corporation and the Trustee of such other indenture or indentures supplemental thereto as shall be deemed necessary and desirable by the Corporation for the purpose of modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in the Indenture or in any Supplemental Indenture; provided, however, that nothing in the Indenture shall permit, or be construed as permitting (a) without the consent of the Registered Owners of all then Outstanding Obligations, (i) an extension of the maturity date of the principal of or the interest on any Obligation, or (ii) a reduction in the principal amount of any Obligation or the rate of interest thereon, or (iii) a privilege or priority of any Obligation or Obligations over any other Obligation or Obligations except as otherwise provided in the Indenture, or (iv) a reduction in the aggregate principal amount of the Obligations required for consent to such Supplemental Indenture, or (v) the creation of any lien other than a lien ratably securing all of the Obligations at any time Outstanding under the Indenture except as

otherwise provided therein or (b) any modification of the trusts, powers, rights, obligations, duties, remedies, immunities and privileges of the Trustee without the prior written approval of the Trustee.

Additional Limitation on Modification of Indenture

None of the provisions of the Indenture shall permit an amendment to the provisions of the Indenture which permits the transfer of all or part of the Financed Higher Education Act Eligible Loans or granting of a security interest therein to any Person other than an Eligible Lender or a Servicer, unless the Act or Regulations are hereafter modified so as to permit the same.

Certain Covenants of the Corporation

The Corporation covenants in the Indenture that it shall administer, operate and maintain the Program in such a manner as to ensure that the Program and the Financed Eligible Loans (to the extent the same are made under the Act) are in compliance with and shall benefit from the benefits available under the Act and the federal program of reimbursement for student loans pursuant to the Act, or from any other federal statute providing for such federal program, except as may be expressly permitted by the Supplemental Indenture authorizing the issuance of any Series of Bonds.

The Corporation covenants in the Indenture that, so long as any Financed Higher Education Act Eligible Loans remain in the Trust Estate and any Obligations are Outstanding, the Corporation (a) shall, from and after the date on which it shall have entered into each Guarantee Agreement applicable thereto, maintain the Guarantee Agreement and diligently enforce its rights thereunder; (b) shall enter into such other similar or supplemental agreements as shall be required to maintain benefits for all Financed Higher Education Act Eligible Loans covered thereby; and (c) shall not voluntarily consent to or permit any rescission of or consent to any amendment to or otherwise take any action under or in connection with each Guarantee Agreement or any similar or supplemental agreement or engage any other guarantor of the Financed Higher Education Act Eligible Loans which in any manner shall materially adversely affect the rights of the Registered Owners under the Indenture. The Corporation shall also enforce any agreements relating to Alternative Student Loans, including guarantees of the same by third parties.

The Corporation covenants in the Indenture that, so long as any Financed Higher Education Act Eligible Loans remain in the Trust Estate and any Bonds are Outstanding, the Corporation (a) shall maintain all Certificates of Insurance and diligently enforce its rights thereunder; (b) shall enter into such other similar or supplemental agreements as shall be required to maintain benefits for all Financed Higher Education Act Eligible Loans covered thereby, and (c) shall not voluntarily consent to or permit any rescission of or consent to any amendment to or otherwise take any action under or in connection with any such Certificates of Insurance or any similar or supplemental agreement which in any manner shall materially adversely affect the rights of the Registered Owners under the Indenture.

The Corporation covenants in the Indenture that it shall acquire and originate only Eligible Loans with moneys in the Loan Fund and shall diligently cause to be collected, except as otherwise permitted under the Indenture, all principal and interest payments on all the Financed Eligible Loans and other sums to which the Corporation is entitled pursuant to any Student Loan Purchase Agreement, all grants, subsidies, donations, guarantee payments, insurance payments, Special Allowance Payments, Interest Benefit Payments, and all defaulted payments Guaranteed by the Guaranty Agency or Insured by the Secretary which relate to such Financed Eligible Loans. The Corporation shall also make, or cause to be made by a Servicer, every effort to perfect the Corporation's or such Servicer's claims for payment from the Secretary or the Guaranty Agency and/or from any entity or third party guaranteeing Alternative Student Loans, of all payments related to such Financed Higher Education Act Eligible Loans, no later than required by the Act and the applicable Guarantee Agreement and no later than required by any guarantee agreement applicable to any Alternative Student Loan. The Corporation shall assign such Financed Higher Education Act Eligible Loans for payment of Guarantee or Insurance benefits within the required period under applicable law and regulations. The Corporation shall comply with all United States and Commonwealth statutes, rules and regulations which apply to the Program and to the Financed Eligible Loans.

The Corporation has covenanted in the Indenture that, subject to the next paragraph and the last sentence of this paragraph, it shall cause to be diligently enforced, and take all steps, actions and proceedings reasonably

necessary for the enforcement of, all terms, covenants and conditions of all Financed Eligible Loans and agreements in connection therewith, including the prompt payment of all principal and interest payments and all other amounts due the Corporation thereunder. The Corporation shall not, except as otherwise permitted under the Indenture, permit the release of the obligations of any borrower under any Financed Eligible Loan and shall, subject to the next paragraph and the last sentence of this paragraph, at all times, to the extent permitted by law, cause to be defended, enforced, preserved and protected the rights and privileges of the Corporation and the Trustee under the Indenture or with respect to each Financed Eligible Loan and agreement in connection therewith. The Corporation shall not, subject to the next paragraph and the last sentence of this paragraph, consent or agree to or permit any amendment or modification of any Financed Eligible Loan or agreement in connection therewith which shall in any manner materially adversely affect the rights or security of the Registered Owners under the Indenture. Notwithstanding the foregoing, nothing in the Indenture shall be construed to prevent the Corporation from: (i) granting a reasonable forbearance to a borrower (unless such forbearance shall, in the reasonable judgment of the Corporation, have a material adverse impact on the Corporation's ability to meet its obligations hereunder); (ii) settling a default or curing a delinquency on any Financed Eligible Loan on such terms as shall be permitted by law; (iii) charging interest at a lower rate than is required by the Act; (iv) establishing discounts or granting fee reduction or waiver, rate reduction or waiver or forgiveness of principal or of interest on Financed Eligible Loans, as described in any Supplemental Indenture or so long as such action shall not adversely affect the Ratings on any of the Bonds as evidenced by a Rating Confirmation; or (v) forgiving amounts owing on any Financed Eligible Loan, provided (A) such forgiveness is in the ordinary course of the Corporation's business or in the judgment of the Corporation is otherwise cost effective, and shall not have a material adverse impact on the Corporation's ability to meet its obligations under the Indenture and (B) the Corporation delivers to the Trustee within 90 days of the end of each Fiscal Year a certificate signed by an Authorized Officer setting forth the aggregate principal and interest amounts of such loans forgiven during such Fiscal Year and certifying one of the requirements in clause (A) has been satisfied.

Pursuant to the Indenture, the Corporation may also forgive the indebtedness on all or a portion of the Financed Eligible Loans to the extent necessary to prevent interest on any Tax-Exempt Bonds from being includable in the gross income of the owners thereof for federal income tax purposes, or take such other action as may be provided in the written opinion of Bond Counsel (including, but not limited to, the payment of "yield reduction payments" under Section 1.148-5(c) of the Treasury Regulations).

All Financed Eligible Loans which are part of the Trust Estate shall be administered and collected either by the Corporation or by a Servicer selected by the Corporation in a competent, diligent and orderly fashion and in accordance with all requirements of the Act, if applicable, the Secretary, if applicable, and the Indenture.

While the Corporation shall be owner of the Financed Eligible Loans, subject to the lien of the Indenture, and shall be the holder thereof for purposes of the Act to the extent applicable thereto, the Trustee shall have all rights with respect to and all interest in the Financed Eligible Loans provided by the Corporation Act and the Act for and on behalf of the Owners. The Financed Eligible Loan notes shall be held by the Corporation, directly or by a Servicer or other custodian acceptable to the Trustee as its agent, in the name of and for the account of the Corporation, but subject to the lien of the Trust Estate and the beneficial interest of the Trustee for and on behalf of the Owners.

The Corporation has covenanted in the Indenture that it shall cause to be kept and maintained proper books of account relating to the Program in which full, true and correct entries shall be made, in accordance with generally accepted accounting principles, of all dealings or transactions of or in relation to the business and affairs of the Corporation, and within 180 days after the end of each Fiscal Year shall receive an audit of such books of account by a certified public accountant. A copy of each audit report, annual balance sheet and income and expense statement showing in reasonable detail the financial condition of the Corporation as at the close of each Fiscal Year, and summarizing in reasonable detail the income and expenses for such year, including the transactions relating to the Funds, Accounts and Subaccounts, Outstanding Bond balance by Stated Maturity and redemption history (date, amount, source of funds, distribution of funds per Bond Stated Maturity), must be filed promptly with the Trustee and shall be available for inspection by any Registered Owner.

Tax Covenants

The Corporation covenants in the Indenture that:

- (a) it shall at all times do and perform all acts and things necessary or desirable in order to assure that interest paid on the Tax-Exempt Bonds shall, for purposes of federal income taxation, be excludable from the gross income of the recipients thereof, including, but not limited to, such actions as are required to be taken pursuant to any Tax Documents and the Indenture;
- (b) it shall not permit at any time or times any of the proceeds of the Bonds or any other funds of the Corporation to be used directly or indirectly to acquire any securities or obligations, the acquisition of which would cause any Tax-Exempt Bond to be or become an "arbitrage bond" as defined in Section 148 of the Code;
- (c) it shall take such action as may be necessary to assure that the Portfolio Yield as of the date of final payment of the Tax-Exempt Bonds does not exceed the Bond Yield by an amount greater than may be consistent with any Tax Documents, including the forgiveness and discharge of borrower payment obligations with respect to the outstanding principal amounts of and any interest due upon any or all of the Financed Eligible Loans upon any such payment date;
- (d) unless the Corporation and the Trustee receive a Favorable Opinion, it shall not sell, transfer or otherwise dispose of any Financed Eligible Loan that is credited to the Tax-Exempt Loan Account, or transfer any such Financed Eligible Loan to the Taxable Loan Account, except as permitted by the Indenture, including: (i) loan consolidation, combination, serialization or collection purposes and (ii) sales the entire proceeds of which are to be applied to fund the payment of Tax-Exempt Bonds, unless the Corporation determines that adequate provision has been made assuring that such sale, transfer or other disposition does not impair the Corporation's capacity to comply with its obligation relative to the restriction upon Portfolio Yield as such obligation would be calculated upon the date of such sale, transfer or other disposition in accordance with any Tax Documents; and
- (e) the Program documents shall include the requirement that no borrower on a Financed Eligible Loan nor any "related person," as defined in Section 144(a)(3) of the Code, shall pursuant to any arrangement, formal or informal, purchase the Corporation's obligations in an amount related to the amount of such borrower's Financed Eligible Loans.

Satisfaction of Indenture

(a) The Indenture provides that, if the Corporation shall pay, or cause to be paid, or there shall otherwise be paid (i) to the Registered Owners of the Bonds, the principal of and interest on the Bonds, at the times and in the manner stipulated in the Indenture, (ii) to each Swap Provider, all Corporation Swap Payments and other Termination Payments then due and (iii) to the United States of America, the amount required to be paid in satisfaction of its obligations as described in the Indenture or in any Tax Document, then the pledge of the Trust Estate, except the Rebate Fund, which is not pledged under the Indenture, and all covenants, agreements, and other obligations of the Corporation to the Registered Owners of Bonds (other than as described under the caption "Tax Covenants" above) shall thereupon cease, terminate, and become void and be discharged and satisfied. In such event, the Trustee shall execute and deliver to the Corporation all such instruments as may be desirable to evidence such discharge and satisfaction, and the Trustee shall pay over or deliver all money held by it under the Indenture to the party entitled to receive the same under the Indenture. If the Corporation shall pay or cause to be paid, or there shall otherwise be paid, to the Registered Owners of any Outstanding Bonds the principal of and interest on such Bonds, and to each Swap Provider all Corporation Swap Payments and other Termination Payments then due, at the times and in the manner stipulated in the Indenture and in the Swap Facility such Bonds and each Swap Provider shall cease to be entitled to any lien, benefit, or security under the Indenture, and all covenants, agreements, and obligations of the Corporation to the Registered Owners thereof and each Swap Provider shall thereupon cease, terminate, and become void and be discharged and satisfied.

(b) Bonds or interest installments shall be deemed to have been paid within the meaning of paragraph (a) above if money for the payment or redemption thereof has been set aside and is being held in trust by

the Trustee at the Stated Maturity or earlier redemption date thereof. Any Outstanding Bond shall, prior to the Stated Maturity or earlier redemption thereof, be deemed to have been paid within the meaning and with the effect expressed in paragraph (a) above if (i) such Bond is to be redeemed on any date prior to its Stated Maturity and (ii) the Corporation shall have given notice of redemption on said date, there shall have been deposited with the Trustee either money (fully insured by the Federal Deposit Insurance Corporation or fully collateralized by Governmental Obligations) in an amount which shall be sufficient, or Governmental Obligations (including any Governmental Obligations issued or held in book-entry form on the books of the Department of Treasury of the United States of America) the principal of and the interest on which when due shall provide money which, together with the money, if any, deposited with the Trustee at the same time, shall be sufficient, to pay when due the principal of, premium, if any, and interest to become due on such Bond on and prior to the redemption date or Stated Maturity thereof, as the case may be. No such deposit shall have the effect described in this paragraph (b) if made during the existence of an Event of Default, unless made with respect to all of the Bonds then Outstanding and no such deposit shall be made unless there is delivered to the Trustee (A) an opinion of Bond Counsel to the effect that such deposit shall not adversely affect any exclusion from gross income for federal income tax purposes of interest on any Tax-Exempt Bond and (B) a report of an independent certified public accountant or firm of such accountants verifying the sufficiency of such deposit to pay the principal of, premium, if any, and interest to become due on such Bond on and prior to the redemption date or Stated Maturity thereof, as the case may be. Neither Governmental Obligations nor money deposited with the Trustee as described in this paragraph (b) nor principal or interest payments on any such Governmental Obligations shall be withdrawn or used for any purpose other than, and such Governmental Obligations and money shall be held irrevocably in trust in an escrow account for, the payment of the principal of and interest on such Bonds. Any cash received from such principal of and interest on such Governmental Obligations deposited with the Trustee, if not needed for such purpose, shall, to the extent practicable, be reinvested in Governmental Obligations maturing at times and in amounts sufficient to pay when due the principal of and interest on such Bonds on and prior to such redemption date or Stated Maturity thereof, as the case may be, and interest earned from such reinvestments shall be paid over to the Corporation, as received by the Trustee, free and clear of any trust, lien, or pledge. Any payment for Governmental Obligations purchased for the purpose of reinvesting cash as aforesaid shall be made only against delivery of such Governmental Obligations. For the purposes of this paragraph (b), "Governmental Obligations" shall mean and include only non-callable direct obligations of the Department of the Treasury of the United States of America or portions thereof (including interest or principal portions thereof), and such Governmental Obligations shall be of such amounts, maturities, and interest payment dates and bear such interest as shall, without further investment or reinvestment of either the principal amount thereof or the interest earnings therefrom, be sufficient to make the payments described in the Indenture, and which obligations have been deposited in an escrow account which is irrevocably pledged as security for the Bonds. Such term shall not include mutual funds and unit investment trusts.

(c) Any Corporation Swap Payments are deemed to have been paid and the applicable Swap Facility terminated when payment of all Corporation Swap Payments and other Termination Payments due and payable to each Swap Provider under its respective Swap Facility have been made or duly provided for to the satisfaction of each Swap Provider and the respective Swap Facility has been terminated.

(d) The provisions of this caption are applicable to the Bonds and the Corporation Swap Payments and other Termination Payments and any portion of the Bonds.

APPENDIX C

AUDITED FINANCIAL STATEMENTS OF THE CORPORATION

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Strothman & Company P S C

Certified Public Accountants & Advisors



Financial Statements

**Kentucky Higher Education
Student Loan Corporation**

June 30, 2005

Financial Statements

Kentucky Higher Education Student Loan Corporation

June 30, 2005

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Strothman & Company P S C
Certified Public Accountants & Advisors

1600 Waterfront Plaza
325 West Main Street
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Independent Auditors' Report

Board of Directors
Kentucky Higher Education Student Loan Corporation
Louisville, Kentucky



We have audited the accompanying financial statements of each major fund of the Kentucky Higher Education Student Loan Corporation (the "Corporation"), a blended component unit of Kentucky Higher Education Assistance Authority, (a component unit of the Commonwealth of Kentucky), as of and for the year ended June 30, 2005, which collectively comprise the Corporation's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund of the Corporation as of June 30, 2005, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 2 through 7 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 23, 2005, on our consideration of the Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Strothman & Company P S C

Louisville, Kentucky
September 23, 2005

Management's Discussion and Analysis (Unaudited)

Kentucky Higher Education Student Loan Corporation

June 30, 2005

The Kentucky Higher Education Student Loan Corporation (the "Corporation") is an independent *de jure* municipal corporation established by the Kentucky General Assembly in 1978 to provide a loan finance program for post-secondary students in the Commonwealth of Kentucky (the "Commonwealth"). The Corporation functions as a lender of student loans, making loans to parent and students directly; a servicer of student loans; and a secondary market for the purchase of student loans from other lenders. The Corporation funds the origination or acquisition of these student loans by periodically issuing bonds and notes under various debt agreements, including its three general bond resolutions. The Corporation also services education loans and collects defaulted education loans. The Corporation's services and loans are marketed under the registered service mark "The Student Loan PeopleSM".

This section of the Corporation's annual financial report presents a discussion and analysis of the Corporation's financial performance for the fiscal year ended June 30, 2005. Please read it in conjunction with the Corporation's financial statements and the notes to the financial statements, which follow this section.

FINANCIAL HIGHLIGHTS AS OF JUNE 30, 2005

- The Corporation's total assets at year end were approximately \$1.4 billion, which is an increase of approximately \$276 million or 23% over the prior year.
- The Corporation's net student loans at year end were approximately \$1.2 billion, which is an increase of approximately \$229 million or 23% over the prior year.
- The Corporation's total revenue for the fiscal year ended June 30, 2005 was approximately \$125 million, which is an increase of approximately \$43 million or 53% from the prior fiscal year end.
- The Corporation's fee income for the fiscal year ended June 30, 2005 was approximately \$23 million, which is an increase of approximately \$4 million or 22% from the prior fiscal year end.
- The Corporation's interest expense for the fiscal year ended June 30, 2005 was approximately \$30 million, which is an increase of approximately \$16 million or more than double from the prior fiscal year end.
- The Corporation's total other operating expenses (excluding the provision for arbitrage liabilities and principal forgiveness) for the fiscal year were approximately \$52 million which is an increase of approximately \$13 million or 32% from the prior fiscal year end.
- The Corporation incurred approximately \$14 million in principal and interest forgiveness due to certain borrower benefit plans. This expense also reduced the excess yield on certain of the Corporation's outstanding bond obligations.
- During the year ended June 30, 2005, the Commonwealth's approved Biennial Budget required the Corporation to transfer funds to the General Fund and to the Kentucky Higher Education Assistance Authority (the "Authority") in support of various state tuition programs. Transfers of \$7,151,055 and \$7,800,000 were made to the Authority and the Kentucky State Treasury, respectively, during the year ended June 30, 2005.

Continued

Management's Discussion and Analysis (Unaudited)--Continued

Kentucky Higher Education Student Loan Corporation

June 30, 2005

- The Corporation's change in net assets after operating transfers for the fiscal year ended June 30, 2005 was approximately \$7.7 million, which is a decrease of approximately \$9 million or 54% from the prior fiscal year.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Corporation's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") as applied on an accrual basis. Under the accrual basis of GAAP, revenues are recognized in the period in which they are earned and expenses are recognized in the period in which they are incurred. These basic financial statements are separated into funds. These requirements, as well as certain governmental accounting pronouncements, require this financial statement presentation.

The three basic financial statements presented within the financial statements are:

Balance Sheet

This statement presents information regarding the Corporation's assets, liabilities and net assets. Net assets represent the total amount of assets less the total liabilities. The balance sheet classifies assets, liabilities and classifies net assets as current, noncurrent, restricted and unrestricted according to restrictions in each general bond resolution.

Statement of Revenues, Expenses and Changes in Net Assets

This statement presents the Corporation's interest income, cost of funds, operating expenses and changes in net assets for the fiscal year.

Statement of Cash Flows

The Corporation's statement of cash flows is presented using the direct method of reporting, which reflects cash flows from operating, investing, noncapital and capital financing activities.

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Continued

Management's Discussion and Analysis (Unaudited)--Continued

Kentucky Higher Education Student Loan Corporation

June 30, 2005

FINANCIAL ANALYSIS OF THE CORPORATION

The Corporation's total net assets at June 30, 2005 were approximately \$1.4 billion, which is an increase of approximately \$276 million or 23% over June 30, 2004. Components of the Corporation's balance sheets as of June 30, 2005 and 2004 were as follows:

	<u>2005</u>	<u>2004</u>	<u>Increase (Decrease)</u>	<u>%</u>
Assets				
Loans	\$ 1,207,632,746	\$ 978,578,931	\$ 229,053,815	23 %
Capital Assets	3,427,909	2,329,161	1,098,748	47 %
Other Assets	<u>237,502,856</u>	<u>192,031,561</u>	<u>45,471,295</u>	24 %
Total Assets	<u>\$ 1,448,563,511</u>	<u>\$ 1,172,939,653</u>	<u>\$ 275,623,858</u>	23 %
Liabilities				
Short and Long-Term	\$ 1,297,250,000	\$ 1,045,450,000	\$ 251,800,000	24 %
Other Liabilities	<u>43,309,246</u>	<u>27,144,220</u>	<u>16,165,026</u>	60 %
Total Liabilities	<u>1,340,559,246</u>	<u>1,072,594,220</u>	<u>267,965,026</u>	25 %
Net Assets				
Invested in Capital	3,427,909	2,329,161	1,098,748	47 %
Restricted	84,129,098	86,061,379	(1,932,281)	(2) %
Unrestricted	<u>20,447,258</u>	<u>11,954,893</u>	<u>8,492,365</u>	71 %
Total Net Assets	<u>108,004,265</u>	<u>100,345,433</u>	<u>7,658,832</u>	8 %
Total Liabilities and Net Assets	<u>\$ 1,448,563,511</u>	<u>\$ 1,172,939,653</u>	<u>\$ 275,623,858</u>	23 %

The increase noted above in the Corporation's total assets is the continuation of a trend of growth in prior years. Total assets grew from approximately \$1.173 billion at June 30, 2004 to approximately \$1.449 billion at June 30, 2005. Net loans outstanding totaled \$1.208 billion at June 30, 2005, a \$229 million increase over June 30, 2004. This increase included \$430 million in loan acquisitions (both originations and purchases) offset by borrower payments, consolidation loan payments and principal forgiveness on the loans. Other assets increased by \$45 million as a result of increased cash and investment balances at year end. These balances were increased due to higher amounts of borrower payments from a maturing loan portfolio as more borrowers go into repayment and due to increased subsidy payments from the United States Department of Education ("USDE"). During fiscal year 2005, the Corporation drew down approximately \$73 million from the 2000 Line of Credit and issued \$350 million in bonds to acquire student loans. The amount was offset by approximately \$171 million in bond maturities and repayments on the line of credit. This increase was the largest component of the Corporation's increase in its total liabilities. Other liabilities increased \$16 million, primarily as a result of an increase in the allowance for arbitrage liabilities.

Continued

Management's Discussion and Analysis (Unaudited)--Continued

Kentucky Higher Education Student Loan Corporation

June 30, 2005

The Corporation's change in net assets for the year ended June 30, 2005 was \$7.7 million, which is a decrease of approximately \$9 million or 54% less than the change in net assets for the year ended June 30, 2004. Components of the Corporation's statements of revenues, expenses and change in net assets as of June 30, 2005 and 2004 were as follows:

**Revenues, Expenses and Changes in Net Assets Data
Years Ended June 30, 2005 and**

	<u>2005</u>	<u>2004</u>	<u>Increase (Decrease)</u>	<u>%</u>
Revenues				
Interest on Loans	\$97,071,590	\$61,455,867	\$35,615,723	58 %
Interest on Investments	<u>5,218,632</u>	<u>1,806,139</u>	<u>3,412,493</u>	189 %
Total Interest Income	102,290,222	63,262,006	39,028,216	62 %
Fee Income	<u>22,746,230</u>	<u>18,715,709</u>	<u>4,030,521</u>	22 %
Total Revenues	125,036,452	81,977,715	43,058,737	53 %
Expenses				
Interest on Debt	30,365,717	13,957,461	16,408,256	118 %
Provision for Arbitrage Liabilities	9,500,006	(672,944)	10,172,950	1,512 %
Principal Forgiveness	10,597,487	9,672,561	924,926	10 %
Other Operating Expenses:				
Financing and Origination	8,211,301	6,265,975	1,945,326	31 %
Federal Consolidation Fees	3,237,957	2,417,030	820,927	34 %
Personnel and Professional	13,950,422	10,482,674	3,467,748	33 %
General Administrative	<u>26,563,675</u>	<u>20,097,782</u>	<u>6,465,893</u>	32 %
Total Other Operating Expenses	<u>51,963,355</u>	<u>39,263,461</u>	<u>12,699,894</u>	32 %
Total Expenses	<u>102,426,565</u>	<u>62,220,539</u>	<u>40,206,026</u>	65 %
Changes in Net Assets Before Operating Transfers	22,609,887	19,757,176	2,852,711	14 %
Transfers				
Transfer to the Authority	(7,151,055)	(3,000,000)	(4,151,055)	(138) %
Transfer to the Kentucky State Treasury	<u>(7,800,000)</u>	<u>0</u>	<u>(7,800,000)</u>	(100) %
Changes in Net Assets	<u>\$ 7,658,832</u>	<u>\$16,757,176</u>	<u>\$ (9,098,344)</u>	(54) %

Continued

Kentucky Higher Education Student Loan Corporation

June 30, 2005

Interest income, which includes interest on loans and investments, increased by 58% due to certain loans qualifying for the minimum 9.5% yield allowed under special allowance rules. The average yield from interest on loans in FY 2005 was 8.62% versus 6.74% in FY 2004. Given the rising interest rate environment, investment yields increased from .81% in FY 2004 to 1.71% in FY 2005. Fee income increased due to growth of a portfolio for a large client for whom the Corporation performs third-party servicing activities. Interest on debt more than doubled from the prior year due to rising interest rates on the variable rate bonds outstanding. Average rates rose from 1.32% in FY 2004 to 2.30% in FY 2005. Certain borrower benefits resulted in loan and interest forgiveness of approximately \$14 million which had the effect of reducing the excess yield on certain of the Corporation's outstanding bond obligations. Other operating expenses increased 32% due to costs related to the growing loan portfolio as the Corporation adds loan and servicing volume.

CONDITIONS AFFECTING FINANCIAL POSITION

At June 30, 2005, the Corporation was servicing and committed to purchase student loans from other lenders with a principal balance of approximately \$33.4 million. The total portfolio of student loans that the Corporation owns, services for other lenders, and collects was approximately \$7.1 billion at June 30, 2005. This is an increase of approximately \$1.4 billion or 25% higher than as of June 30, 2004.

The Corporation continues to experience significant growth in all aspects of its operations and the Corporation's fiscal year 2006 budget reflects continued growth. Efforts to increase the Corporation's lending market share in the Commonwealth and the continued high rate of growth in the client servicing portfolio is expected to promote the sustained growth pattern for the Corporation throughout the coming fiscal year. The Corporation has added additional staff to perform the additional work associated with this significant growth and its anticipated expense increase for fiscal year 2006 reflect the additional costs expected to be incurred as a result of the additional student loan volume.

Available and affordable funds from debt financings enable the Corporation to meet its lending demand for loans originated and purchased. Historically, the Corporation has issued primarily tax-exempt debt. However, since 1997 the Corporation has supplemented its tax-exempt funding with taxable debt at a higher interest cost. Annually, the Corporation receives an allocation from the Commonwealth's Private Activity Bond Allocation committee which authorizes the amount of tax-exempt debt that the Corporation can issue. As of June 30, 2005, the Corporation's tax-exempt debt outstanding was 45% of the total bonds outstanding. In addition to funds provided by debt issuances, the Corporation also has a \$100 million line of credit with Bank of America for loan acquisitions. This line of credit provides additional liquidity in the event that loan demand exceeds the available funds from debt issuances. The Corporation has secured this line of credit through December 31, 2005 and expects to renew or replace this funding source to ensure available funds throughout fiscal year 2006. The Corporation and its trustee monitor the maturities of all debt instruments and the appropriate levels in the debt service and debt service reserve accounts. There are no scheduled bond maturities in fiscal year 2006.

Continued

Management's Discussion and Analysis (Unaudited)--Continued

Kentucky Higher Education Student Loan Corporation

June 30, 2005

Certain loans financed through bonds dated prior to October 1, 1993 receive a 9.5% minimum rate of return based on provisions of the Higher Education Act of 1965, as amended, and related interpretations by the USDE. However, beginning October 1, 2004 and ending on December 31, 2005, any new loans acquired or originated using the proceeds of tax exempt obligations originally issued prior to October 1, 1993, if either the underlying bonds are refunded or loans are refinanced, will no longer receive the 9.5% minimum rate of return. Possible additional changes in legislation and/or USDE interpretations in the future could cause this benefit to be further reduced or eliminated; however, management does not expect any such changes to be retroactive.

The Commonwealth's approved Biennial Budget required the Corporation to transfer funds to the General Fund and to the Authority in support of various state tuition programs in fiscal years 2005 and 2006. The Corporation is required to make transfers of \$66,448,100 that will be made from released fund equity and net income during the year ending June 30, 2006.

CONTACTING MANAGEMENT

This financial report is designed to provide the reader with a general overview of the Corporation's finances, and to show accountability for the money it receives. Inquiries about this report may be directed to Mr. Charles Robinson, Chief Financial Officer, Kentucky Higher Education Student Loan Corporation, 10180 Linn Station Road, Suite C200, Louisville, Kentucky 40223.

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Balance Sheet

Kentucky Higher Education Student Loan Corporation

June 30, 2005

	Education Finance Funds	Operating Fund	Combined Totals
Assets			
Current			
Cash and Cash Equivalents	\$ 151,532,128	\$ 14,742,594	\$ 166,274,722
Investments		6,663,994	6,663,994
Receivables and Prepaid Expenses	4,660	2,832,371	2,837,031
Accrued Interest Income	17,000,358	32,478	17,032,836
Special Allowance Receivable	13,615,566		13,615,566
Due from Kentucky Higher Education Assistance Authority		4,826,089	4,826,089
Interfund Receivable (Payable)	815,153	(815,153)	0
Total Current Assets	182,967,865	28,282,373	211,250,238
Noncurrent			
Loans, Net	1,207,632,746		1,207,632,746
Deferred Debt Issuance Cost	5,818,937		5,818,937
Deferred Loan Purchase Premiums and Origination Costs, Net	20,433,681		20,433,681
Property and Equipment, Less Accumulated Depreciation		3,427,909	3,427,909
Total Noncurrent Assets	1,233,885,364	3,427,909	1,237,313,273
Total Assets	\$ 1,416,853,229	\$ 31,710,282	\$ 1,448,563,511
Liabilities			
Current			
Accounts Payable and Accrued Expenses	\$ 2,492,557	\$ 7,835,115	\$ 10,327,672
Interest Payable	3,090,157		3,090,157
Total Current Liabilities	5,582,714	7,835,115	13,417,829
Noncurrent			
Bonds/Note Payable	1,297,250,000		1,297,250,000
Allowance for Arbitrage Liabilities	29,891,417		29,891,417
Total Noncurrent Liabilities	1,327,141,417		1,327,141,417
Total Liabilities	1,332,724,131	7,835,115	1,340,559,246
Net Assets			
Invested in Capital Assets		3,427,909	3,427,909
Restricted	84,129,098		84,129,098
Unrestricted		20,447,258	20,447,258
Total Net Assets	84,129,098	23,875,167	108,004,265
Total Liabilities and Net Assets	\$ 1,416,853,229	\$ 31,710,282	\$ 1,448,563,511

See Notes to Financial Statements

Statement of Revenues, Expenses and Changes in Net Assets

Kentucky Higher Education Student Loan Corporation

Year Ended June 30, 2005

	Education Finance Funds	Operating Fund	Combined Totals
Revenues			
Interest on Loans	\$ 96,653,185	\$ 80,802	\$ 96,733,987
Late Payment Penalties	336,703	900	337,603
Interest on Investments	4,823,969	394,663	5,218,632
Debt Recovery Commission		75,310	75,310
Servicing Fees		7,910,966	7,910,966
Service/Administration Fees		14,759,954	14,759,954
Total Revenues	101,813,857	23,222,595	125,036,452
Expenses			
Interest on Debt	30,365,717		30,365,717
Amortization of Bond Issuance Costs	309,260		309,260
Variable Bond Credit Facility and Remarketing Fees	3,375,357		3,375,357
Provision for Arbitrage Liabilities	9,500,006		9,500,006
Amortization of Loan Purchase Premiums and Origination Costs	4,526,684		4,526,684
Depreciation and Amortization		2,309,382	2,309,382
Federal Consolidation Fees	3,237,957		3,237,957
Personnel and Professional Services		13,950,422	13,950,422
General Administrative		8,071,204	8,071,204
Provision for Student Loan Loss	301,998	103,674	405,672
Principal Forgiveness under Borrower Benefit Programs	10,597,487		10,597,487
Servicing and Administration Fees	14,759,954		14,759,954
Other Expenses	1,017,463		1,017,463
Total Expenses	77,991,883	24,434,682	102,426,565
Operating Income (Loss)	23,821,974	(1,212,087)	22,609,887
Transfers			
Interfund Transfers	(21,710,055)	21,710,055	0
Transfer to the State Treasury		(7,800,000)	(7,800,000)
Transfer to the Kentucky Higher Education Assistance Authority	(4,044,200)	(3,106,855)	(7,151,055)
Increase (Decrease) in Net Assets	(1,932,281)	9,591,113	7,658,832
Net Assets at Beginning of Year	86,061,379	14,284,054	100,345,433
Net Assets at End of Year	\$ 84,129,098	\$ 23,875,167	\$ 108,004,265

Statement of Cash Flows

Kentucky Higher Education Student Loan Corporation

Year Ended June 30, 2005

	Education Finance Funds	Operating Fund	Combined Totals
Cash Flows From Operating Activities			
Principal Received on Loans	\$ 200,631,370	\$ (42,975)	\$ 200,588,395
Interest on Loans	26,633,477	80,527	26,714,004
Special Allowance	59,415,383		59,415,383
Client Loan Receipts		1,003,347,585	1,003,347,585
Servicing Fees		7,039,275	7,039,275
Debt Recovery Commission/Cost Reimbursement		72,426	72,426
Loans Purchased, including Premiums	(16,719,579)	(59,525)	(16,779,104)
Loans Originated, including Costs	(423,615,727)		(423,615,727)
Credit Facility Fees	(3,302,117)		(3,302,117)
Loan Receipts Remitted to Clients		(1,000,419,879)	(1,000,419,879)
Other Expenses	(20,288,555)	(9,660,972)	(29,949,527)
Net Cash Provided By (Used In) Operating Activities	<u>(177,245,748)</u>	<u>356,462</u>	<u>(176,889,286)</u>
Cash Flows From Investing Activities			
Investment Income	4,560,614	366,795	4,927,409
Proceeds from Sales and Maturities of Investments		14,600,000	14,600,000
Purchases of Investments		(13,592,161)	(13,592,161)
Net Cash Provided By Investing Activities	<u>4,560,614</u>	<u>1,374,634</u>	<u>5,935,248</u>
Cash Flows From Noncapital Financing Activities			
Proceeds from Debt Issued	423,000,000		423,000,000
Debt Issuance Costs	(1,321,511)		(1,321,511)
Debt Principal Payments	(171,200,000)		(171,200,000)
Interest on Debt	(28,599,834)		(28,599,834)
Fund Transfers	(21,710,055)	21,710,055	0
Transfer to the State Treasury		(7,800,000)	(7,800,000)
Transfer to the Kentucky Higher Education Assistance Authority	(4,044,200)	(3,106,855)	(7,151,055)
Net Cash Provided By Noncapital Financing Activities	<u>196,124,400</u>	<u>10,803,200</u>	<u>206,927,600</u>
Cash Flows From Capital and Related Financing Activities			
Property and Equipment Acquired		(3,430,835)	(3,430,835)
Net Cash Used In Capital and Related Financing Activities		<u>(3,430,835)</u>	<u>(3,430,835)</u>
Net Increase in Cash and Cash Equivalents	23,439,266	9,103,461	32,542,727
Cash and Cash Equivalents at Beginning of Year	<u>128,092,862</u>	<u>5,639,133</u>	<u>133,731,995</u>
Cash and Cash Equivalents at End of Year	<u>\$ 151,532,128</u>	<u>\$ 14,742,594</u>	<u>\$ 166,274,722</u>

Continued

Statement of Cash Flows--Continued

Kentucky Higher Education Student Loan Corporation

Year Ended June 30, 2005

	Education Finance Funds	Operating Fund	Combined Totals
Reconciliation of Operating Income (Loss) to Net Cash Provided By (Used In) Operating Activities			
Operating Income (Loss)	\$ 23,821,974	\$ (1,212,087)	\$ 22,609,887
Income and Expense Items not Affecting Cash Provided By (Used In) Operating Activities			
Investment Income	(4,560,614)	(366,795)	(4,927,409)
Depreciation and Amortization		2,309,382	2,309,382
Loss on Equipment Disposal		22,704	22,704
Amortization of Bond Issuance Costs	309,260		309,260
Amortization of Loan Purchase Premiums and Origination Costs	4,526,684		4,526,684
Interest on Debt	30,365,717		30,365,717
Provision for Loan Losses	301,998	103,674	405,672
Borrower Interest Converted to Principal	(14,287,300)	(1,174)	(14,288,474)
Principal Forgiveness	10,597,487		10,597,487
Interest Forgiveness	3,373,475		3,373,475
Net Change in Fair Value of Investments		1,192	1,192
Items Not Accounted for as Revenues or Expenses:			
Principal Received on Loans	200,631,370	(42,975)	200,588,395
Loans Purchased, including Premiums	(16,719,579)	(59,525)	(16,779,104)
Loans Originated, including Costs	(423,615,727)		(423,615,727)
(Increase) Decrease in Assets:			
Receivables and Prepaid Expenses	2,360	(5,677,883)	(5,675,523)
Accrued Interest	(330,338)	(29,060)	(359,398)
Special Allowance Receivable	39,778		39,778
Interfund Receivable/Payable	(1,683,763)	1,683,763	0
Increase (Decrease) in Liabilities:			
Accounts Payable and Accrued Expenses	582,892	3,625,246	4,208,138
Allowance for Arbitrage Liabilities	9,398,578		9,398,578
Net Cash Provided By (Used In) Operating Activities	<u>\$ (177,245,748)</u>	<u>\$ 356,462</u>	<u>\$ (176,889,286)</u>

See Notes to Financial Statements

Notes to Financial Statements

Kentucky Higher Education Student Loan Corporation

June 30, 2005

Note 1--Description of Business and General Bond Resolutions

The Kentucky Higher Education Student Loan Corporation (the "Corporation") is an independent *de jure* municipal corporation established by the Kentucky General Assembly in 1978 to provide a loan finance program for post-secondary students in the Commonwealth of Kentucky (the "Commonwealth"). Governed by a Board of Directors, the Corporation is authorized to finance loans for students attending eligible post-secondary institutions, service and collect education loans, and issue bonds and notes not to exceed \$5 billion in order to carry out its corporate powers and duties. The Corporation's education finance, servicing and collection activities include: (i) the origination and secondary market acquisition of education loans originated pursuant to the Federal Family Education Loan Program ("FFELP"); (ii) the financing of FFELP Loans; (iii) the servicing of FFELP Loans and of other education loans, and (iv) the collection of FFELP Loans and other education loans for other holders on a commission or cost reimbursement basis. The FFELP student loans held, serviced and collected by the Corporation include Federal Stafford Loans ("Stafford"), Unsubsidized Stafford Loans ("Unsubsidized Stafford"), Federal Supplemental Loans for Students ("SLS"), Federal Parent Loans for Undergraduate Students ("PLUS"), and Federal Consolidation Loans ("Consolidations").

The FFELP loans held by the Corporation are insured by the Kentucky Higher Education Assistance Authority (the "Authority"), as the state guaranty agency, or the U. S. Department of Education (USDE). Loans made prior to October 1, 1993, are 100% insured. Loans made on or after October 1, 1993, are 100% insured against borrowers' death, disability, or bankruptcy and 98% insured against borrowers' default.

The Corporation's General Bond Resolutions ("GBR"s) and separate Series Resolutions for issue of revenue bonds contain provisions establishing funds and accounts for the segregation of assets and provisions restricting the use of the proceeds of bonds and other funds received.

As of June 30, 2005 the Corporation serviced approximately \$1.2 billion outstanding principal amount of FFELP Loans which are pledged pursuant to the 1983 GBR, the 1997 GBR, the 2000 Line of Credit Trust Agreement or the 2004 GBR and approximately \$5.8 billion of FFELP Loans and other education loans on behalf of other holders, including holders with national lending operations. The majority of such education loans are being serviced by the Corporation pursuant to servicing agreements. These agreements do not provide for the acquisition by the Corporation of the education loans serviced. As a servicer of FFELP loans, the Corporation collects student loan remittances and subsequently disburses these remittances to the appropriate lending entities. In addition, the Corporation currently collects approximately \$162 million of FFELP Loans and other education loans for other holders on a commission or cost reimbursement basis. The Corporation's obligations pursuant to such servicing and collection agreements are without recourse to assets pledged to collateralize any Corporation financings.

Note 2--Summary of Significant Accounting Policies

(a) Reporting Entity

The Corporation is a blended component unit of the Authority (a component unit of the Commonwealth of Kentucky).

Continued

Notes to Financial Statements--Continued

Kentucky Higher Education Student Loan Corporation

June 30, 2005

Note 2--Summary of Significant Accounting Policies--Continued

(b) Basis of Presentation

The Corporation's basic financial statements are prepared in accordance with Governmental Accounting Standards Board ("GASB") Statement No. 34, "Basic Financial Statements and Management Discussion and Analysis - for State and Local Governments". The basic financial statements are comprised of fund financial statements and notes to the financial statements. The fund financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America applicable to state government entities, which provide that financial activities operated similarly to private business enterprises be presented as separate proprietary funds and that accounting results be organized by funds to account for specific activities consistent with legal and operating requirements. The Corporation's funds include the Education Finance Funds and the Operating Fund. The Education Finance Funds include loan programs funded individually under financings under the 1983 General Bond Resolution, the 1997 General Bond Resolution, the 2004 General Bond Resolution and the Line of Credit.

Financial activities operated similarly to private business enterprises and financed through fees for servicing and defaulted loan collection are presented under the Operating Fund. The Corporation follows all applicable Governmental Accounting Standards Board pronouncements, as well as Financial Accounting Standards Board pronouncements and Accounting Principles Board Opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. The Corporation uses the accrual basis of accounting.

(c) Loan Losses

As discussed in Note 1, the Corporation's FFELP loans are guaranteed by the Authority. Management of the Corporation believes that the Authority will be able to honor all default claims submitted by the Corporation. However, the Corporation records a provision for loan losses based upon its expected default claims with respect to 98% insured loans and for loans with certain loan servicing violations. The allowance for loan losses on FFELP loans was \$1,020,207 for loan principal and \$161,765 for accrued interest as of June 30, 2005. Furthermore, the Corporation is required to purchase loans owned by third-party customers with certain loan servicing violations. As of June 30, 2005, the allowance for third-party servicing loan losses was \$1,690,732 for loan principal and \$176,037 for accrued interest.

(d) Investments

Investments, which consist principally of securities of the federal government or its agencies and commercial paper, are reported at fair market value. Fair market value is determined by using quoted market prices as of the last day of the fiscal year.

Continued

Kentucky Higher Education Student Loan Corporation

June 30, 2005

Note 2--Summary of Significant Accounting Policies--Continued

(e) Interest Income on Loans

The Corporation earns interest income on loans from three sources: (1) the USDE for subsidized interest earned while certain students are in school; (2) special allowance subsidies (discussed in Footnote 6); and (3) the borrowers. All interest is recorded when earned and is shown in the financial statements net of the interest related portion of the provision for loan losses.

(f) Servicing Fees

The Corporation's fees for servicing loans held by third parties are recorded as servicing fee revenue when earned. These third-party loans are not presented on the balance sheet as they are not owned by the Corporation.

(g) Income Taxes

The Corporation is an independent *de jure* municipal corporation and political subdivision of the Commonwealth of Kentucky and is therefore not subject to federal or state income taxes.

(h) Deferred Bond Issuance Costs

Bond issuance costs are deferred and amortized over the life of the bonds, utilizing the bonds outstanding method, which approximates the effective interest method.

(i) Deferred Loan Purchase Premiums and Deferred Loan Origination Costs

Loan purchase premiums and certain origination costs are deferred and amortized over the estimated life of the loans acquired or originated, based on projected balances outstanding, which approximates the effective interest method.

(j) Interfund Eliminations

Receivables and payables among the funds of the Corporation are eliminated in the balance sheet.

(k) Property and Equipment

Office furnishings, equipment, and system development costs are recorded at cost and depreciated over their estimated useful lives using the straight-line method.

(l) Statement of Cash Flows

For the statement of cash flows, the Corporation considers cash and cash equivalents to include money market funds and highly liquid investments which mature within one month of purchase.

Continued

Kentucky Higher Education Student Loan Corporation

June 30, 2005

Note 2--Summary of Significant Accounting Policies--Continued

(m) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Note 3--Cash, Cash Equivalents and Investments

The Corporation has adopted the provisions of GASB Statement No. 40, "Deposits and Investment Risk Disclosures". This statement adds certain additional disclosures about cash and investments, including common areas of investment risk.

The Corporation's deposit and investment policy complies with the underlying bond resolution requirements. In accordance with those bond resolutions, all deposits and investments meet the requirements and approval of the line of credit and bond insurance providers. Additionally, such requirements mandate specific classes of investment vehicles including bank time deposits, certificates of deposit, direct obligations of the United States of America unconditionally guaranteed by the United States of America, indebtedness issued by certain Federal agencies, collateralized repurchase agreements or investment funds secured by obligations of the United States of America with collateral held by or at the direction of the trustee.

At June 30, 2005, the Corporation had \$166,274,722 of cash and cash equivalents. Of this amount, \$200,000 was covered by insurance provided by the Federal Deposit Insurance Corporation ("FDIC"). The remaining balance was uninsured and uncollateralized, and was invested in money market mutual funds or repurchase agreements supported by U. S. government obligations.

At June 30, 2005, the Corporation had \$6,663,994 of investments, consisting of obligations of U.S. government sponsored agencies. The average effective duration (i.e. maturity) of the Corporation's portfolio is less than two months.

(a) Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Corporation's deposits may not be returned to it. The Corporation does not have a formal deposit policy for custodial credit risk, however, accounts are set up with overnight sweep accounts so that cash is invested in short term, liquid investments daily to minimize the amount of cash not covered by insurance provided by the FDIC.

Continued

Notes to Financial Statements--Continued

Kentucky Higher Education Student Loan Corporation

June 30, 2005

Note 3--Cash, Cash Equivalents and Investments--Continued

(b) Custodial Credit Risk – Investments

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Corporation will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Corporation's investments are held in the name of the Corporation by a trustee.

(c) Concentration of Credit Risk

The Corporation has no restrictions on the amount it may invest in any one issuer of the \$6,663,994 of investments. Approximately 50% of the Corporation's investments are in obligations of the Federal National Mortgage Association and 50% in obligations of the Federal Home Loan Mortgage Corporation.

(d) Interest Rate Risk

The Corporation does not have a formal policy limiting maturities of its investments (\$6,663,994 at June 30, 2005). However, as a matter of practice, the Corporation generally invests in instruments with a maturity of less than one year to manage its exposure to fair value losses from increasing interest rates,

Note 4--Loans

The Corporation originates, purchases and holds various types of student loans as described in Note 1. The terms of these loans, which vary on an individual basis depending upon loan type and the date the loan was originated, generally provide for repayment in monthly installments of principal and interest over a period of up to thirty years for consolidation loans and generally up to ten years for other loans. The repayment period begins after a grace period of six months following graduation or loss of qualified student status for the Subsidized and Unsubsidized Stafford loans. The repayment period for Consolidation, SLS and PLUS loans begins within 60 days from the date the loan is fully disbursed. Interest rates on student loans ranged from 2.77% to 12% for the fiscal year ended June 30, 2005 depending upon the type and date of origination of the individual loan.

Continued

Notes to Financial Statements--Continued

Kentucky Higher Education Student Loan Corporation

June 30, 2005

Note 4--Loans--Continued

Loans consist of the following at June 30, 2005:

Stafford – Subsidized	\$ 477,797,280
Stafford – Unsubsidized	359,444,642
PLUS/SLS	29,051,940
Consolidation	342,483,817
Other	<u>1,566,006</u>
 Total gross loans	 1,210,343,685
Allowance for loan loss	<u>(2,710,939)</u>
 Net loans	 1,207,632,746
Net deferred premium and loan cost	<u>20,433,681</u>
 Net Loans and Deferred Premium and Loan Costs	 <u>\$ 1,228,066,427</u>

All student loans are initially guaranteed as to principal and accrued interest. In order for the loans to be or remain guaranteed, certain due diligence requirements in loan servicing must be met. As of June 30, 2005, \$2,470,548 of student loans were no longer considered guaranteed due to violation of due diligence requirements.

The Corporation withholds certain origination fees from the loan disbursements on FFELP loans to the borrowers and remits these fees to USDE. The amount of the origination fees is based on a percentage of the gross loan amount.

The Corporation is also required to pay to USDE certain lender and rebate fees. The amount of the Lender Fees is based on a certain percentage of the gross loan amount on all FFELP loans originated after October 1, 1993 and a certain percentage of the carrying value of the Consolidation loans.

Generally, all student loans of the Corporation are pledged as collateral for the various obligations of the Corporation.

Notes to Financial Statements--Continued

Kentucky Higher Education Student Loan Corporation

June 30, 2005

Note 5--Property and Equipment

A summary of Property and Equipment follows:

	Beginning Balance July 1, 2004	Additions	Disposals	Ending Balance June 30, 2005
Furniture	\$ 1,626,841	\$ 482,019	\$ 463,824	\$ 1,645,036
Computer Equipment	4,804,960	2,891,072	139,850	7,556,182
Other Equipment	209,073	57,744	9,706	257,111
System Development --	55,955			55,955
Student Loan Servicing System	541,131			541,131
Debt Recovery System	139,350			139,350
Total Property and Equipment	7,377,310	3,430,835	613,380	10,194,765
Less Accumulated Depreciation	<u>5,048,149</u>	<u>2,309,382</u>	<u>590,675</u>	<u>6,766,856</u>
Net Property and Equipment	<u>\$ 2,329,161</u>	<u>\$ 1,121,453</u>	<u>\$ 22,705</u>	<u>\$ 3,427,909</u>

Note 6--Special Allowance

The U.S. Department of Education pays a special allowance to the Corporation after the end of each quarter representing supplemental interest on outstanding, insured loans. Certain FFELP loans disbursed during the period from January 1, 2000 through June 30, 2005, receive special allowance at a rate based upon the average of the bond equivalent rates of the 3-month commercial paper rate as reported by the U.S. Federal Reserve. Other eligible loans receive special allowance based on the 91-day U.S. Treasury bill rates. Certain loans financed through bonds dated prior to October 1, 1993 receive a 9.5% minimum rate of return based on provisions of the Higher Education Act of 1965, as amended, and related interpretations by the USDE. However, beginning October 1, 2004 and ending on December 31, 2005, any new loans acquired or originated using the proceeds of tax exempt obligations originally issued prior to October 1, 1993, if either the underlying bonds are refunded or loans are refinanced, will no longer receive the 9.5% minimum rate of return. Possible additional changes in legislation and/or USDE interpretations in the future could cause this benefit to be further reduced or eliminated; however, management does not expect any such changes to be retroactive.

Notes to Financial Statements--Continued

Kentucky Higher Education Student Loan Corporation

June 30, 2005

Note 7--Principal and Interest Forgiveness

During fiscal year 2005, the Corporation forgave \$10,597,487 in loan principal and \$3,373,475 in accrued interest for certain borrowers that were teachers and nurses who worked in the Commonwealth and students who completed the academic period for which their loan was made.

Note 8--Revenue Bonds

The balance of revenue bonds at June 30, 2005 and the related activity for the year ended June 30, 2005 is as follows:

<u>Series</u>	<u>Scheduled Maturity</u>	<u>Interest Rate</u>	<u>Beginning Balance July 1, 2004</u>	<u>Bond Maturities</u>	<u>New Issues</u>	<u>Ending Balance June 30, 2005</u>
<u>1983 General Bond Resolution</u>						
1991 E	December 1, 2011	Weekly**	\$ 46,000,000			\$ 46,000,000
1993 B	Semi-annually in various amounts through June 1, 2005	4.90% to 5.30%	36,920,000	\$ (36,920,000)		--
1996 A	June 1, 2026	Weekly**	25,000,000			25,000,000
2003 A	December 1, 2032	Every 35 days	20,600,000			20,600,000
2003 B	June 1, 2005	1.65%	20,000,000	(20,000,000)		--
<u>1997 General Bond</u>						
1997 A-1	May 1, 2027	Every 35 days**	45,250,000			45,250,000
1997 A-2	May 1, 2027	Every 35 days**	45,200,000			45,200,000
1997 B	May 1, 2027	Every 35 days**	44,550,000			44,550,000
1998 A-1	May 1, 2028	Every 28 days**	36,400,000			36,400,000
1998 A-2	May 1, 2028	Every 28 days**	36,400,000			36,400,000
1998 B	May 1, 2028	Every 35 days**	42,200,000			42,200,000
1999 A	May 1, 2029	Every 28 days**	51,350,000			51,350,000
1999 B	May 1, 2029	Every 35 days**	23,650,000			23,650,000
2000 A-1	May 1, 2030	Every 28 days**	42,100,000			42,100,000
2000 A-2	May 1, 2030	Every 28 days**	42,100,000			42,100,000
2000 A-3	May 1, 2030	Every 35 days**	42,050,000			42,050,000
2000 B	May 1, 2030	Every 35 days**	23,750,000			23,750,000
2001 A-1	May 1, 2031	Every 35 days**	59,850,000			59,850,000
2001 A-2	May 1, 2031	Every 35 days**	59,850,000			59,850,000
2001 B	May 1, 2031	Every 35 days**	30,300,000			30,300,000
2002 A-1	May 1, 2032	Every 28 days**	55,450,000			55,450,000
2002 A-2	May 1, 2032	Every 35 days**	55,450,000			55,450,000
2002 A-3	May 1, 2032	Every 35 days**	39,100,000			39,100,000
2003 A-1	May 1, 2033	Every 35 days**	63,700,000			63,700,000
2003 A-2	May 1, 2033	Every 35 days**	16,950,000			16,950,000

Continued

Notes to Financial Statements--Continued

Kentucky Higher Education Student Loan Corporation

June 30, 2005

Note 8--Revenue Bonds--Continued

<u>Series</u>	<u>Scheduled Maturity</u>	<u>Interest Rate</u>	<u>Beginning Balance July 1, 2004</u>	<u>Bond Maturities</u>	<u>New Issues</u>	<u>Ending Balance June 30, 2005</u>
<u>2004 General Bond Resolution</u>						
2004 A-1	June 1, 2034	Every 35 days**			\$ 18,850,000	18,850,000
2004 A-2	June 1, 2034	Every 35 days**			57,550,000	57,550,000
2004 A-3	June 1, 2034	Every 35 days**			57,600,000	57,600,000
2004 A-4	June 1, 2034	Every 35 days**			57,600,000	57,600,000
2004 A-5	June 1, 2034	Every 28 days**			72,400,000	72,400,000
2004 A-6	June 1, 2034	Every 28 days**			75,000,000	75,000,000
2004 B-1	June 1, 2034	Every 35 days**			11,000,000	11,000,000
			<u>\$1,004,170,000</u>	<u>\$ (56,920,000)</u>	<u>\$ 350,000,000</u>	<u>\$1,297,250,000</u>

** Variable interest rate changes based on specified indices.

All Revenue Bonds except for the Senior Series 1997 A-1 and 1997 A-2, Senior Series 1998A-1 and 1998A-2, Senior Series 1999A, Senior Series 2000A-1, 2000A-2, and 2000A-3, Senior Series 2001A-1 and 2001A-2, Senior Series 2002A-1 and 2002A-2, and Senior Series 2004A-5 and 2004A-6 are tax-exempt issues.

Debt service requirements to maturity or redemption date, assuming interest rates on variable rate debt remains at June 30, 2005 levels, are as follows:

	<u>Principal Repayment Amount (Thousands)</u>			
	<u>83 GBR</u>	<u>97 GBR</u>	<u>04 GBR</u>	<u>Total</u>
Five Years Ending				
June 30, 2014	\$ 46,000			\$ 46,000
June 30, 2029	25,000	\$ 325,000		350,000
June 30, 2034	<u>20,600</u>	<u>530,650</u>	<u>\$ 350,000</u>	<u>901,250</u>
	<u>\$ 91,600</u>	<u>\$ 855,650</u>	<u>\$ 350,000</u>	<u>\$ 1,297,250</u>

Continued

Notes to Financial Statements--Continued

Kentucky Higher Education Student Loan Corporation

June 30, 2005

Note 8--Revenue Bonds--Continued

	Interest Payments Amount (Thousands)			
	83 GBR	97 GBR	04 GBR	Total
Year Ending June 30, 2006	\$ 3,089	\$ 34,114	\$ 13,177	\$ 50,380
Year Ending June 30, 2007	3,089	34,114	13,177	50,380
Year Ending June 30, 2008	3,089	34,114	13,177	50,380
Year Ending June 30, 2009	3,089	34,114	13,177	50,380
Year Ending June 30, 2010	3,089	34,114	13,177	50,380
5 Years Ending June 30, 2015	10,131	170,570	65,886	246,587
5 Years Ending June 30, 2020	7,854	170,570	65,886	244,310
5 Years Ending June 30, 2025	7,854	170,570	65,886	244,310
5 Years Ending June 30, 2030	4,485	138,965	65,886	209,336
5 Years Ending June 30, 2035	1,802	24,001	51,610	77,413
	<u>\$ 47,571</u>	<u>\$ 845,246</u>	<u>\$ 381,039</u>	<u>\$ 1,273,856</u>

All assets of the 1983 General Bond Resolution Fund and 1997 General Bond Resolution Fund and 2004 General Bond Resolution Fund are pledged for repayment of the specific bond issues under each resolution.

Note 9--Line of Credit

The Corporation is a party to a Line of Credit Agreement with Bank of America, N.A., providing for advances to the Corporation not to exceed an aggregate outstanding principal balance of \$100 million. The borrowing period ends December 31, 2005, and can be extended at the discretion of both parties through December 31, 2006. During the year ended June 30, 2005, the Corporation drew down \$73,000,000 and made principal payments of \$114,280,000 on this line of credit. At June 30, 2005, there were no advances outstanding.

Note 10--Allowance for Arbitrage Liabilities

Certain of the Corporation's tax-exempt bond issues subject the Corporation to potential arbitrage liabilities under U.S. tax law. Arbitrage liabilities, under current federal income tax law regarding tax-exempt bond issues, consist of three types; (1) yield adjustment payments, (2) forgiveness and (3) arbitrage rebate. At June 30, 2005, the Corporation is reporting a liability for yield adjustment payments and forgiveness of \$29,829,244 and for arbitrage rebate of \$62,173.

The determination of excess yield on acquired purpose investments is cumulative over the life of the applicable bond series, as is the determination of arbitrage rebate on non-purpose investments, except for variable rate bonds for which arbitrage rebate is generally determined for each five-year period without retroactivity.

Kentucky Higher Education Student Loan Corporation

June 30, 2005

Note 10--Allowance for Arbitrage Liabilities--Continued

Yield adjustment payments, which also relate to yield restriction on acquired purpose investments, are applicable to the 1991 Series D & E Bonds, 1996 Series A, Subordinate Series 1997B, Senior Series 1998B, Senior Series 1999B, Senior Series 2000B, Senior Series 2001B Bonds, and any future issues except certain refunding issues. The allowable yield is 2% above the bond yield (arbitrage yield), with the federal special allowance included in income. The loss of tax-exempt status may be avoided by rebating the excess yield to the U.S. Treasury every 10 years, and upon final maturity of the bonds.

Forgiveness is applicable to the 1991 Series B & C, 1993 Series A, B & C, 1994 Series A & B, 1995 Series A, B & C, 1996 Series B, and 1997 Series A, B, C, & D bonds. In general, a yield restriction is imposed on acquired purpose investments, designating the allowable yield as 1.5% or 2.0% above the bond yield (arbitrage yield). The loss of tax-exempt status may be avoided by partial forgiveness of the applicable student loans. Forgiveness can be applied upon maturity of the bonds or as otherwise prescribed by the bond resolutions.

Arbitrage rebate is applicable to all of the Corporation's tax-exempt bonds except the 1985 Series A. With certain limited exceptions, income earned on non-purpose investments (investments other than student loans), which exceeds the bond yield (arbitrage yield), must be rebated to the U.S. Treasury. Payments of at least 90% are due every five years after the year of issuance, and upon final maturity of bonds.

Note 11--Credit and Liquidity Facilities and Bond Remarketing

The 1991 Series E and 1996 Series A Bonds are collateralized with Standby Bond Purchase Agreements, pursuant to which Landesbank Hessen-Thüringen Girozentrale will purchase any bonds not remarketed. The 1991 Series E Bonds and the 1996 Series A Bonds also have a Municipal Bond Insurance Policy issued by AMBAC Indemnity Corporation and MBIA Insurance Corporation, respectively, which collateralizes payment of principal and interest on the bonds. The Standby Bond Purchase Agreements expires December 1, 2011 for the 1991 Series E Bonds and December 31, 2015 for the 1996 A Bonds. The AMBAC Municipal Bond Insurance Policy extends through the term of the 1991 Series E Bonds, December 1, 2011 and the MBIA Municipal Bond Insurance Policy extends through the term of the 1996 Series A Bonds, June 1, 2026.

The Corporation pays certain fees with respect to its variable rate bonds to auction agents, broker dealers, market agents, remarketing agents, and tender agents for remarketing bonds or conducting auctions of bonds. These arrangements are generally cancelable with prior notice by either party.

Kentucky Higher Education Student Loan Corporation

June 30, 2005

Note 12--Retirement Plan

The Corporation provides retirement benefits to all full-time employees through the Kentucky Retirement System ("KRS"). KRS is a multiple-employer, defined benefit plan sponsored by the Commonwealth of Kentucky, which provides retirement, disability, and death benefits. The Corporation contributed 5.89% of gross wages for the year ended June 30, 2005. The employees contributed 5% of their gross wages to the plan for the year ended June 30, 2005. Such rates are intended to provide for normal costs on a current basis, plus an amount equal to the amortization of unfunded past service costs over thirty years, using the level percentage of payroll method. These contribution rates are determined by the Board of Trustees of KRS each biennium. The payroll of employees covered by the retirement plan was \$12,400,209 for the year ended June 30, 2005. Total payroll for the year ended June 30, 2005 was \$13,474,028. KRS participants have fully vested interests after the completion of sixty months of service, twelve months of which are current service. The KRS contribution requirement for the year ended June 30, 2005 was \$1,349,301, which consisted of employer contributions of \$729,919 and \$619,382 from employees in 2005. Employer contributions for the years ended June 30, 2004 and 2003 were \$564,750 and \$358,009, respectively. Although separate measurements of assets and pension benefit obligation are not available for individual employers, KRS's annual financial report (which is a matter of public record) contains this information for KRS as a whole. It may be obtained from the KRS by writing to them at 1260 Louisville Road, Perimeter Park West, Frankfort, Kentucky 40601.

Note 13--Related Party Transactions

The Corporation maintains a Board of Directors that mirrors the Authority's Board of Directors. In accordance with Kentucky Revised Statutes 164.746 and 164A.050, the Corporation and the Authority maintain a board comprised of ten members appointed to the Authority's Board by the Governor and five ex officio voting members.

During the year ended June 30, 2005, the Corporation entered into a shared services agreement with the Authority to cover Information Processing Services and Technology, Collection Services, Internal Audit, Executive Management and Professional Support Services, Clerical Administrative and Technical Support Services, Creative Services, and Cooperative Procurement. During the year ended June 30, 2005, the Corporation provided services to the Authority valued at \$6,381,186. Also during the year ended June 30, 2005, the Authority provided services to the Corporation valued at \$2,062,822. The Corporation maintains a receivable at year-end for the remaining \$4,318,364.

The Corporation also maintains a loan origination and disbursement services agreement with the Authority. During the year ended June 30, 2005, the Corporation paid the Authority \$543,122 for loan origination and disbursement services.

Pursuant to a separate agreement, the Corporation provided escrow services for federal funds restricted for default aversion activities. During the fiscal year ended June 30, 2005, the Corporation expended \$703,201 of the escrowed funds on behalf of the Authority. At year-end, there were no escrowed funds outstanding.

Continued

Notes to Financial Statements--Continued

Kentucky Higher Education Student Loan Corporation

June 30, 2005

Note 13--Related Party Transactions--Continued

The Corporation reimburses the Authority for all direct postage charges related to the Corporation. The Corporation paid the Authority \$1,327,462 during the year ended June 30, 2005 for postage reimbursement. As of June 30, 2005, the Corporation owed the Authority an additional \$94,749.

During the year ended June 30, 2005, the Commonwealth's approved Biennial Budget required the Corporation to transfer funds to the General Fund and to the Authority in support of various state tuition programs. Transfers of \$7,151,055 and \$7,800,000 were made to the Authority and the Kentucky State Treasury, respectively, during the year ended June 30, 2005. The Biennial Budget also requires that transfers of \$66,448,100 be made from released fund equity and net income during the year ending June 30, 2006.

Note 14--Net Assets

Restricted net assets consist of net assets of the Education Finance Funds as required by the 1983, 1997 and 2004 General Bond Resolutions, the separate Series Resolutions, and Line of Credit Agreements. Pursuant to action of the Board of Directors, unrestricted net assets at June 30, 2005 are reserved for the Corporation's operating expenses for the upcoming fiscal year.

Note 15--Operating Leases

The Corporation leases office space and equipment under agreements expiring through 2010. The following are the approximate minimum lease commitments under operating leases:

<u>Year Ending June 30</u>	
2006	\$ 814,000
2007	737,000
2008	215,000
2009	183,000
2010	41,000

Note 16--Commitments and Contingencies

The Corporation has entered into loan purchase contracts with various eligible lenders. Subject to the terms and conditions of these agreements, the Corporation on June 30, 2005, had plans to purchase approximately \$33.4 million of loans. These contracts cannot be terminated by either party.

Notes to Financial Statements--Continued

Kentucky Higher Education Student Loan Corporation

June 30, 2005

Note 17--Subsequent Events-2005 Bond Issue

On September 8, 2005, the Corporation issued \$400 million of Student Loan Revenue Bonds to continue its student loan finance program. The \$100 million 2005 Series A & B Tax Exempt Bonds are scheduled to mature on June 1, 2035, and bear interest rates that change every 35 days based on specified indices. The \$300 million 2005 Series A Taxable Bonds are scheduled to mature on June 1, 2035, and bear interest rates that change every 28 days based on specified indices.

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FORMS OF OPINIONS OF BOND COUNSEL RELATING TO THE SENIOR SERIES 2006A-1 BONDS AND SUBORDINATE SERIES 2006B-1 BONDS

[SENIOR SERIES 2006A-1 BONDS]

[LETTERHEAD OF HAWKINS DELAFIELD & WOOD LLP]

August 17, 2006

Kentucky Higher Education Student
Loan Corporation
Louisville, Kentucky

Ladies and Gentlemen:

We have examined a record of proceedings relating to the issuance of \$28,175,000 Student Loan Revenue Bonds, Senior Series 2006A-1 (the "Series 2006A-1 Bonds"), of the Kentucky Higher Education Student Loan Corporation (the "Corporation"), a public body corporate and politic constituting an independent *de jure* municipal corporation and political subdivision of the Commonwealth of Kentucky.

The Series 2006A-1 Bonds have been authorized and issued pursuant to: (i) Chapter 164A of the Kentucky Revised Statutes, as amended (the "Act"); (ii) a resolution adopted by the Board of Directors of the Corporation (the "Board") on June 30, 2006 and a resolution adopted by the Executive Committee of the Board on August 1, 2006 (collectively, the "Authorizing Resolutions"); (iii) an Indenture of Trust dated as of August 1, 2004 (as amended, the "Original Indenture") by and between the Corporation and Wells Fargo Bank, N.A., as trustee (the "Trustee"); (iv) a Fifth Supplemental Indenture dated as of August 1, 2006 (the "Fifth Supplemental Indenture", and collectively with the Original Indenture, the "Indenture"; capitalized terms used but not defined herein are used as defined for purposes of the Indenture) by and between the Corporation and the Trustee; and (v) a Corporation Issuance Order dated August 17, 2006 (the "Corporation Order").

The Series 2006A-1 Bonds, dated as of the date of initial issuance thereof, are scheduled to mature on the dates and in the principal amounts and will bear interest at the rates, and be payable on the dates, determined as provided in the Indenture and the Corporation Order.

The Series 2006A-1 Bonds are issuable as fully registered bonds, initially in the denomination of \$25,000 and any integral multiple thereof. The Series 2006A-1 Bonds are subject to exchange, to conversion, to mandatory tender and to redemption prior to maturity and are payable upon the terms and conditions provided therein and in the Indenture.

Pursuant to the Act, the Indenture and the Authorizing Resolutions, the Corporation is authorized to issue the Series 2006A-1 Bonds. The Series 2006A-1 Bonds constitute Senior Obligations entitled to the equal benefit, protection and security of the provisions and covenants of the Indenture with respect to Senior Obligations.

The Indenture provides that the pledge of the Trust Estate made thereby and the provisions, covenants and agreements of the Corporation therein set forth shall be for the equal benefit, protection and security of the Owners of any and all Obligations, all of which shall be of equal rank without preference, priority or distinction of any Obligation over any other, except as expressly provided therein. The Indenture further provides that the Series 2006A-1 Bonds and all other Senior Obligations shall have the same priority of claim as to payment under the Indenture, which priority shall be Senior to that of all Obligations other than Senior Obligations. The Corporation reserves the right to issue Additional Obligations under the Indenture which are equal to or subordinate to the Series 2006A-1 Bonds in such priority.

The Indenture provides that nonpayment of the principal of or interest on Subordinate Obligations, or Junior-Subordinate Obligations, occurring while any Obligations which are senior in priority of claim as to payment under the Indenture to the Obligations affected, and which are not affected by such nonpayment, remain Outstanding shall not result in an Event of Default under the Indenture. The Indenture further provides: (i) that only Owners of Obligations which are not subordinate in priority of claim as to payment thereunder to any other Outstanding Obligations, such as the Series 2006A-1 Bonds, may direct or consent to the Trustee's exercise of remedies with respect to, or may waive, any Event of Default thereunder; and (ii) that the exercise by such Owners of the remedy of acceleration in response to an Event of Default which does not result from nonpayment of the principal of or interest on Obligations is conditioned upon the consent of all Owners of Outstanding Obligations.

We are of the opinion that:

1. The Corporation is a duly organized and existing independent *de jure* municipal corporation and political subdivision of the Commonwealth of Kentucky, pursuant to the Constitution and laws of the Commonwealth of Kentucky.

2. The Corporation has valid right and lawful authority to adopt the Authorizing Resolutions and to execute and deliver the Indenture and the Corporation Order, to issue its Student Loan Revenue Bonds, including the Series 2006A-1 Bonds, pursuant to the Authorizing Resolutions and the Indenture and to perform its duties, obligations and covenants pursuant to the terms and conditions of the Indenture including the financing and refinancing of Eligible Loans.

3. The Authorizing Resolutions have been duly and validly adopted by the Corporation. The Indenture and the Corporation Order have been duly and validly executed and delivered by the Corporation. The Authorizing Resolutions, the Indenture and the Corporation Order are in full force and effect and are valid and binding upon the Corporation and enforceable in accordance with their terms.

4. The Series 2006A-1 Bonds have been duly authorized and issued by the Corporation in accordance with the Constitution and laws of the Commonwealth of Kentucky, the Authorizing Resolutions and the Indenture.

5. The Series 2006A-1 Bonds are valid and binding special and limited debt obligations of the Corporation, enforceable in accordance with their terms and the terms of the Indenture and entitled to the benefits of the Act, the Authorizing Resolutions and the Indenture. As provided by the Indenture, the Series 2006A-1 Bonds are secured by a pledge of certain revenues, assets and funds of the Corporation, including: (i) Revenues (other than as specifically provided in the Indenture); (ii) moneys and investments held in the Funds established by the Indenture (other than as specifically provided in the Indenture); and (iii) Financed Eligible Loans, subject to the provisions of the Indenture permitting the use, application and release thereof. Pursuant to Section 164A.100 of the Act, such pledge is valid and binding and the lien of such pledge as security for the payment of the Series 2006A-1 Bonds, on a basis of parity with all other Obligations secured thereby and subject to the provisions of the Indenture permitting the use, application and release thereof, is valid and binding as against any and all parties having claims against the Corporation.

6. The Series 2006A-1 Bonds do not constitute a debt, liability or other obligation of the Commonwealth of Kentucky, and neither the faith and credit nor the taxing power of the Commonwealth of Kentucky is pledged to the payment of the principal of or interest on the Series 2006A-1 Bonds.

7. Under existing statutes and court decisions, and assuming the accuracy of certain representations and continuing compliance with certain covenants: (i) interest on the Series 2006A-1 Bonds is excluded from gross income for federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"); and (ii) interest on the Series 2006A-1 Bonds, however, is treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code.

The Code establishes certain ongoing requirements that must be met subsequent to the issuance and delivery of the Series 2006A-1 Bonds in order that interest on the Series 2006A-1 Bonds be and remain

excluded from gross income under Section 103 of the Code. These requirements include, but are not limited to, requirements relating to the use and expenditure of Series 2006A-1 Bonds proceeds, yield and other restrictions on the investment of gross proceeds and the arbitrage rebate requirement that certain excess earnings on the gross proceeds be rebated to the federal government. Noncompliance with such requirements may cause interest on the Series 2006A-1 Bonds to become included in gross income for federal income tax purposes retroactive to their issue date, irrespective of the date on which such noncompliance occurs or is discovered. The Corporation has covenanted to comply with certain applicable requirements of the Code to assure the exclusion of interest on the Series 2006A-1 Bonds from gross income under Section 103 of the Code.

In rendering the opinion in paragraph 7 hereof, we have relied upon and assumed: (i) the material accuracy of the representations, statements of intention and reasonable expectation and certifications of fact contained in the Tax Regulatory Agreement dated August 17, 2006 (the "Tax Regulatory Agreement") with respect to matters affecting the status of interest paid on the Series 2006A-1 Bonds; and (ii) compliance by the Corporation with the procedures and covenants set forth in the Tax Regulatory Agreement and the Indenture.

8. Under existing statutes, the Series 2006A-1 Bonds, the income thereon and the transfer thereof, including any profit made on the sale thereof, shall at all times be exempt from taxation or assessment of any type by the Commonwealth, its agencies and departments and by all political subdivisions within the Commonwealth.

In rendering this opinion, we are advising you that the enforceability of the Series 2006A-1 Bonds and the Indenture may be limited by bankruptcy, moratorium, insolvency or other laws affecting creditors' rights or remedies and is subject to general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).

We express no opinion on the effect of any action hereafter taken or not taken in reliance upon an opinion of other counsel on the exclusion from gross income for federal income tax purposes of interest on the Series 2006A-1 Bonds, or on the treatment of such interest under state and local tax law.

We have examined an executed Series 2006A-1 Bonds and, in our opinion, the form of said Series 2006A-1 Bonds and its execution are regular and proper.

Very truly yours,

[SUBORDINATE SERIES 2006B-1 BONDS]

[LETTERHEAD OF HAWKINS DELAFIELD & WOOD LLP]

August 17, 2006

Kentucky Higher Education Student
Loan Corporation
Louisville, Kentucky

Ladies and Gentlemen:

We have examined a record of proceedings relating to the issuance of \$29,000,000 Student Loan Revenue Bonds, Subordinate Series 2006B-1 (the "Series 2006B-1 Bonds"), of the Kentucky Higher Education Student Loan Corporation (the "Corporation"), a public body corporate and politic constituting an independent *de jure* municipal corporation and political subdivision of the Commonwealth of Kentucky.

The Series 2006B-1 Bonds have been authorized and issued pursuant to: (i) Chapter 164A of the Kentucky Revised Statutes, as amended (the "Act"); (ii) a resolution adopted by the Board of Directors of the Corporation (the "Board") on June 30, 2006 and a resolution adopted by the Executive Committee of the Board on August 1, 2006 (collectively, the "Authorizing Resolutions"); (iii) an Indenture of Trust dated as of August 1, 2004 (as amended, the "Original Indenture") by and between the Corporation and Wells Fargo Bank, N.A., as trustee (the "Trustee"); (iv) a Fifth Supplemental Indenture dated as of August 1, 2006 (the "Fifth Supplemental Indenture", and collectively with the Original Indenture, the "Indenture"; capitalized terms used but not defined herein are used as defined for purposes of the Indenture) by and between the Corporation and the Trustee; and (v) a Corporation Issuance Order dated August 17, 2006 (the "Corporation Order").

The Series 2006B-1 Bonds, dated as of the date of initial issuance thereof, are scheduled to mature on the dates and in the principal amounts and will bear interest at the rates, and be payable on the dates, determined as provided in the Indenture and the Corporation Order.

The Series 2006B-1 Bonds are issuable as fully registered bonds, initially in the denomination of \$25,000 and any integral multiple thereof. The Series 2006B-1 Bonds are subject to exchange, to conversion, to mandatory tender and to redemption prior to maturity and are payable upon the terms and conditions provided therein and in the Indenture.

Pursuant to the Act, the Indenture and the Authorizing Resolutions, the Corporation is authorized to issue the Series 2006B-1 Bonds. The Series 2006B-1 Bonds constitute Subordinate Obligations entitled to the equal benefit, protection and security of the provisions and covenants of the Indenture with respect to Subordinate Obligations.

The Indenture provides that the pledge of the Trust Estate made thereby and the provisions, covenants and agreements of the Corporation therein set forth shall be for the equal benefit, protection and security of the Owners of any and all Obligations, all of which shall be of equal rank without preference, priority or distinction of any Obligation over any other, except as expressly provided therein. The Indenture further provides that the Series 2006B-1 Bonds and all other Subordinate Obligations shall have the same priority of claim as to payment under the Indenture, which priority shall be Subordinate to that of all Senior Obligations and senior to that of all Junior Obligations. The Corporation reserves the right to issue Additional Obligations under the Indenture which are senior to, equal to or subordinate to the Series 2006B-1 Bonds in such priority.

The Indenture provides that nonpayment of the principal of or interest on Subordinate Obligations, or Junior-Subordinate Obligations, occurring while any Obligations which are senior in priority of claim as to payment under the Indenture to the Obligations affected, and which are not affected by such nonpayment, remain

Outstanding shall not result in an Event of Default under the Indenture. The Indenture further provides: (i) that only Owners of Obligations which are not subordinate in priority of claim as to payment thereunder to any other Outstanding Obligations may direct or consent to the Trustee's exercise of remedies with respect to, or may waive, any Event of Default thereunder; and (ii) that the exercise by such Owners of the remedy of acceleration in response to an Event of Default which does not result from nonpayment of the principal of or interest on Obligations is conditioned upon the consent of all Owners of Outstanding Obligations.

We are of the opinion that:

1. The Corporation is a duly organized and existing independent *de jure* municipal corporation and political subdivision of the Commonwealth of Kentucky, pursuant to the Constitution and laws of the Commonwealth of Kentucky.

2. The Corporation has valid right and lawful authority to adopt the Authorizing Resolutions and to execute and deliver the Indenture and the Corporation Order, to issue its Student Loan Revenue Bonds, including the Series 2006B-1 Bonds, pursuant to the Authorizing Resolutions and the Indenture and to perform its duties, obligations and covenants pursuant to the terms and conditions of the Indenture including the financing and refinancing of Eligible Loans.

3. The Authorizing Resolutions have been duly and validly adopted by the Corporation. The Indenture and the Corporation Order have been duly and validly executed and delivered by the Corporation. The Authorizing Resolutions, the Indenture and the Corporation Order are in full force and effect and are valid and binding upon the Corporation and enforceable in accordance with their terms.

4. The Series 2006B-1 Bonds have been duly authorized and issued by the Corporation in accordance with the Constitution and laws of the Commonwealth of Kentucky, the Authorizing Resolutions and the Indenture.

5. The Series 2006B-1 Bonds are valid and binding special and limited debt obligations of the Corporation, enforceable in accordance with their terms and the terms of the Indenture and entitled to the benefits of the Act, the Authorizing Resolutions and the Indenture. As provided by the Indenture, the Series 2006B-1 Bonds are secured by a pledge of certain revenues, assets and funds of the Corporation, including: (i) Revenues (other than as specifically provided in the Indenture); (ii) moneys and investments held in the Funds established by the Indenture (other than as specifically provided in the Indenture); and (iii) Financed Eligible Loans, subject to the provisions of the Indenture permitting the use, application and release thereof. Pursuant to Section 164A.100 of the Act, such pledge is valid and binding and the lien of such pledge as security for the payment of the Series 2006B-1 Bonds, on a basis of parity with all other Obligations secured thereby and subject to the provisions of the Indenture permitting the use, application and release thereof, is valid and binding as against any and all parties having claims against the Corporation.

6. The Series 2006B-1 Bonds do not constitute a debt, liability or other obligation of the Commonwealth of Kentucky, and neither the faith and credit nor the taxing power of the Commonwealth of Kentucky is pledged to the payment of the principal of or interest on the Series 2006B-1 Bonds.

7. Under existing statutes and court decisions, and assuming the accuracy of certain representations and continuing compliance with certain covenants: (i) interest on the Series 2006B-1 Bonds is excluded from gross income for federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"); and (ii) interest on the Series 2006B-1 Bonds, however, is treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code.

The Code establishes certain ongoing requirements that must be met subsequent to the issuance and delivery of the Series 2006B-1 Bonds in order that interest on the Series 2006B-1 Bonds be and remain excluded from gross income under Section 103 of the Code. These requirements include, but are not limited to, requirements relating to the use and expenditure of Series 2006B-1 Bonds proceeds, yield and other restrictions on the investment of gross proceeds and the arbitrage rebate requirement that certain excess earnings on the gross

proceeds be rebated to the federal government. Noncompliance with such requirements may cause interest on the Series 2006B-1 Bonds to become included in gross income for federal income tax purposes retroactive to their issue date, irrespective of the date on which such noncompliance occurs or is discovered. The Corporation has covenanted to comply with certain applicable requirements of the Code to assure the exclusion of interest on the Series 2006B-1 Bonds from gross income under Section 103 of the Code.

In rendering the opinion in paragraph 7 hereof, we have relied upon and assumed: (i) the material accuracy of the representations, statements of intention and reasonable expectation and certifications of fact contained in the Tax Regulatory Agreement dated August 17, 2006 (the "Tax Regulatory Agreement") with respect to matters affecting the status of interest paid on the Series 2006B-1 Bonds; and (ii) compliance by the Corporation with the procedures and covenants set forth in the Tax Regulatory Agreement and the Indenture.

8. Under existing statutes, the Series 2006B-1 Bonds, the income thereon and the transfer thereof, including any profit made on the sale thereof, shall at all times be exempt from taxation or assessment of any type by the Commonwealth, its agencies and departments and by all political subdivisions within the Commonwealth.

In rendering this opinion, we are advising you that the enforceability of the Series 2006B-1 Bonds and the Indenture may be limited by bankruptcy, moratorium, insolvency or other laws affecting creditors' rights or remedies and is subject to general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).

We express no opinion on the effect of any action hereafter taken or not taken in reliance upon an opinion of other counsel on the exclusion from gross income for federal income tax purposes of interest on the Series 2006B-1 Bonds, or on the treatment of such interest under state and local tax law.

We have examined an executed Series 2006B-1 Bonds and, in our opinion, the form of said Series 2006B-1 Bonds and its execution are regular and proper.

Very truly yours,

FORM OF OPINION OF BOND COUNSEL RELATING TO THE SENIOR SERIES 2006A-2 BONDS, SENIOR SERIES 2006A-3 BONDS, SENIOR SERIES 2006A-4 BONDS AND SENIOR SERIES 2006A-5 BONDS

[LETTERHEAD OF HAWKINS DELAFIELD & WOOD LLP]

[]

Kentucky Higher Education Student
Loan Corporation
Louisville, Kentucky

Ladies and Gentlemen:

We have examined a record of proceedings relating to the issuance of [\$] Student Loan Revenue Bonds, [Senior Series 2006A-] (the "[Series 2006A-] Bonds"), of the Kentucky Higher Education Student Loan Corporation (the "Corporation"), a public body corporate and politic constituting an independent *de jure* municipal corporation and political subdivision of the Commonwealth of Kentucky.

The [Series 2006A-] Bonds have been authorized and issued pursuant to: (i) Chapter 164A of the Kentucky Revised Statutes, as amended (the "Act"); (ii) a resolution adopted by the Board of Directors of the Corporation (the "Board") on June 30, 2006 and a resolution adopted by the Executive Committee of the Board on August 1, 2006 (collectively, the "Authorizing Resolutions"); (iii) an Indenture of Trust dated as of August 1, 2004 (as amended, the "Original Indenture") by and between the Corporation and Wells Fargo Bank, N.A., as trustee (the "Trustee"); (iv) a Fifth Supplemental Indenture dated as of August 1, 2006 (the "Fifth Supplemental Indenture", and collectively with the Original Indenture, the "Indenture"; capitalized terms used but not defined herein are used as defined for purposes of the Indenture) by and between the Corporation and the Trustee; and (v) a Corporation Issuance Order dated [] (the "Corporation Order").

The [Series 2006A-] Bonds, dated as of the date of initial issuance thereof, are scheduled to mature on the dates and in the principal amounts and will bear interest at the rates, and be payable on the dates, determined as provided in the Indenture and the Corporation Order.

The [Series 2006A-] Bonds are issuable as fully registered bonds, initially in the denomination of \$25,000 and any integral multiple thereof. The [Series 2006A-] Bonds are subject to exchange and to redemption prior to maturity and are payable upon the terms and conditions provided therein and in the Indenture.

Pursuant to the Act, the Indenture and the Authorizing Resolutions, the Corporation is authorized to issue the [Series 2006A-] Bonds. The [Series 2006A-] Bonds constitute Senior Obligations entitled to the equal benefit, protection and security of the provisions and covenants of the Indenture with respect to Senior Obligations.

The Indenture provides that the pledge of the Trust Estate made thereby and the provisions, covenants and agreements of the Corporation therein set forth shall be for the equal benefit, protection and security of the Owners of any and all Obligations, all of which shall be of equal rank without preference, priority or distinction of any Obligation over any other, except as expressly provided therein. The Indenture further provides that the [Series 2006A-] Bonds and all other Senior Obligations shall have the same priority of claim as to payment under the Indenture, which priority shall be Senior to that of all Obligations other than Senior Obligations. The Corporation reserves the right to issue Additional Obligations under the Indenture which are equal to or subordinate to the [Series 2006A-] Bonds in such priority.

The Indenture provides that nonpayment of the principal of or interest on Subordinate Obligations, or Junior-Subordinate Obligations, occurring while any Obligations which are senior in priority of claim as to payment under the Indenture to the Obligations affected, and which are not affected by such nonpayment, remain Outstanding shall not result in an Event of Default under the Indenture. The Indenture further provides: (i) that only Owners of Obligations which are not subordinate in priority of claim as to payment thereunder to any other Outstanding Obligations, such as the [Series 2006A-__] Bonds, may direct or consent to the Trustee's exercise of remedies with respect to, or may waive, any Event of Default thereunder; and (ii) that the exercise by such Owners of the remedy of acceleration in response to an Event of Default which does not result from nonpayment of the principal of or interest on Obligations is conditioned upon the consent of all Owners of Outstanding Obligations.

We are of the opinion that:

1. The Corporation is a duly organized and existing independent *de jure* municipal corporation and political subdivision of the Commonwealth of Kentucky, pursuant to the Constitution and laws of the Commonwealth of Kentucky.

2. The Corporation has valid right and lawful authority to adopt the Authorizing Resolutions and to execute and deliver the Indenture and the Corporation Order, to issue its Student Loan Revenue Bonds, including the [Series 2006A-__] Bonds, pursuant to the Authorizing Resolutions and the Indenture and to perform its duties, obligations and covenants pursuant to the terms and conditions of the Indenture including the financing and refinancing of Eligible Loans.

3. The Authorizing Resolutions have been duly and validly adopted by the Corporation. The Indenture and the Corporation Order have been duly and validly executed and delivered by the Corporation. The Authorizing Resolutions, the Indenture and the Corporation Order are in full force and effect and are valid and binding upon the Corporation and enforceable in accordance with their terms.

4. The [Series 2006A-__] Bonds have been duly authorized and issued by the Corporation in accordance with the Constitution and laws of the Commonwealth of Kentucky, the Authorizing Resolutions and the Indenture.

5. The [Series 2006A-__] Bonds are valid and binding special and limited debt obligations of the Corporation, enforceable in accordance with their terms and the terms of the Indenture and entitled to the benefits of the Act, the Authorizing Resolutions and the Indenture. As provided by the Indenture, the [Series 2006A-__] Bonds are secured by a pledge of certain revenues, assets and funds of the Corporation, including: (i) Revenues (other than as specifically provided in the Indenture); (ii) moneys and investments held in the Funds established by the Indenture (other than specifically provided in the Indenture); and (iii) Financed Eligible Loans, subject to the provisions of the Indenture permitting the use, application and release thereof. Pursuant to Section 164A.100 of the Act, such pledge is valid and binding and the lien of such pledge as security for the payment of the [Series 2006A-__] Bonds, on a basis of parity with all other Obligations secured thereby and subject to the provisions of the Indenture permitting the use, application and release thereof, is valid and binding as against any and all parties having claims against the Corporation.

6. The [Series 2006A-__] Bonds do not constitute a debt, liability or other obligation of the Commonwealth of Kentucky, and neither the faith and credit nor the taxing power of the Commonwealth of Kentucky is pledged to the payment of the principal of or interest on the [Series 2006A-__] Bonds.

7. The [Series 2006A-__] Bonds, constitute debt of the Corporation for federal income tax purposes and interest on the [Series 2006A-__] Bonds is included in gross income for federal income tax purposes pursuant to the Code.

The opinion in paragraph 7 hereof is rendered to support the marketing of the [Series 2006A-__] Bonds. To ensure compliance with requirements imposed by the Internal Revenue Service, we hereby inform you that: (i) such federal tax advice is not intended to be used, and cannot be used by any

Owner, for the purpose of avoiding penalties that may be imposed on the Owner under the Code; and (ii) the Owner should seek advice based on the Owner's particular circumstances from an independent tax advisor.

8. Under existing statutes, the [Series 2006A-__] Bonds, the income thereon and the transfer thereof, including any profit made on the sale thereof, shall at all times be exempt from taxation or assessment of any type by the Commonwealth, its agencies and departments and by all political subdivisions within the Commonwealth.

In rendering this opinion, we are advising you that the enforceability of the [Series 2006A-__] Bonds and the Indenture may be limited by bankruptcy, moratorium, insolvency or other laws affecting creditors' rights or remedies and is subject to general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).

We express no opinion on the effect of any action hereafter taken or not taken in reliance upon an opinion of other counsel on the exclusion from gross income for federal income tax purposes of interest on the [Series 2006A-__] Bonds, or on the treatment of such interest under state and local tax law.

We have examined an executed [Series 2006A-__] Bonds and, in our opinion, the form of said [Series 2006A-__] Bonds and its execution are regular and proper.

Very truly yours,

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AUCTION PROCEDURES FOR THE TAX-EXEMPT ARCS

The Auction Procedures for the Tax-Exempt ARCs are as set forth below. **These procedures will apply separately to an Auction of Bonds of a Series of 2006 Bonds that are ARCs.** All of the terms used in this Appendix F are defined herein or in other parts of this Official Statement. *“ARCs” means the Series 2006A-1 Bonds and Series 2006B-1 Bonds* prior to their conversion to bear interest at a Fixed Rate or a Variable Rate.

Definitions

“AA Financial Commercial Paper Rate,” on any date of determination, shall mean (a) for Auction Periods of 35 days or less or for ARCs in a BMA Auction Mode, the interest equivalent of commercial paper having a maturity of 30 days; (b) for Auction Periods greater than 35 days and less than 75 days, the interest equivalent of commercial paper having a maturity of 60 days; (c) for Auction Periods greater than 75 days and less than 105 days, the interest equivalent of commercial paper having a maturity of 90 days; as each such rate is published on the Business Day prior to such date by the Board of Governors of the Federal Reserve System on its World Wide Web site <http://www.federalreserve.gov/releases/cp/hisrates.txt>, or any successor publication (“H.15(519)”) under the caption “AA financial.” In the event that such publication has not been published in a timely manner, the “AA” Financial Commercial Paper Rate shall be calculated by the Market Agent, and shall be the bond equivalent yield of the arithmetic mean of the offered rates as of 11:00 a.m., New York City time, on the determination date of three leading dealers of U.S. dollar commercial paper in The City of New York (which may include UBS Securities LLC) selected by the Market Agent, for U.S. dollar commercial paper having a maturity of 30, 60 or 90 days, as applicable, placed for financial issuers whose bond rating is “AA” or the equivalent, from a nationally recognized securities rating agency; provided, however, that if the dealers selected as aforesaid by the Market Agent are not quoting as mentioned in this sentence (and if the Market Agent, in its discretion, determines that such quotations can not be obtained from any three leading dealers of U.S. dollar commercial paper in The City of New York) such rate shall be the same rate as in effect for the immediately preceding Interest Period.

For purposes of this definition, the “interest equivalent” of a rate stated on a discount basis (a “discount rate”) for commercial paper of a given day’s maturity shall be equal to the product of (A) 100 times (B) the discount rate times (C) the quotient (rounded upwards to the next higher one-thousandth (.001) of 1%) of (x) the applicable number of days in a year (365 or 366) divided by (y) the difference between (1) 360 and (2) the product of the discount rate (expressed in decimals) times the applicable number of days in which such commercial paper matures.

“After Tax Equivalent Rate,” on any date of determination, means the interest rate per annum equal to the product of:

- (a) The “AA” Financial Commercial Paper Rate on such date; and
- (b) 1.00 minus the Statutory Corporate Tax Rate on such date.

“All-Hold Rate” on any date of determination, means the interest rate per annum equal to 90% (as such percentage may be adjusted as described under the caption “TAX-EXEMPT AUCTION RATE CERTIFICATES – Adjustment in Percentages Pertaining to Tax-Exempt ARCs” in the body of this Official Statement) of the lesser on such date of:

- (a) the After Tax Equivalent Rate on such date; and
- (b) the S&P Weekly High Grade Index on such date;

rounded to the nearest one-thousandth (.001) of 1%; provided that in no event shall the All-Hold Rate be more than the Maximum Rate or less than zero.

“Applicable Number of Business Days” means the greater of two Business Days or one Business Day plus the number of Business Days by which the Auction Date precedes the first day of the next succeeding Interest Period.

“Applicable Percentage,” on any date of determination, means the percentage determined (as such percentage may be adjusted as described under the caption “TAX-EXEMPT AUCTION RATE CERTIFICATES – Adjustment in Percentages Pertaining to Tax-Exempt ARCs” in the body of this Official Statement) based on the lower of the prevailing credit ratings on the ARCs in effect at the close of business on the Business Day immediately preceding such date, as set forth below:

Credit Ratings		Applicable Percentage
Moody’s	Fitch, Inc. and S&P	
“Aaa”	“AAA”	175%
“Aa3” to “Aa1”	“AA-” to “AA+”	175%
“A3” to “A1”	“A-” to “A+”	175%
“Baa3” to “Baa1”	“BBB-” to “BBB+”	200%
Below “Baa3”	Below “BBB-”	265%

provided, that, in the event that the ARCs are not rated by any Rating Agency, the Applicable Percentage shall be 265%; and provided further, that if a Payment Default shall have occurred and be continuing, the Applicable Percentage shall be 265%. For purposes of this definition, the rating categories listed above refer to and include the respective rating categories correlative thereto if any or all of such Rating Agencies have changed or modified their generic rating categories or if they no longer rate the ARCs and have been replaced.

“Auction Agency Agreement” means the Auction Agency Agreement dated as of August 1, 2006, between the Trustee and the Auction Agent, relating to the ARCs, and any similar agreement with a successor Auction Agent, in each case as from time to time amended or supplemented.

“Auction Agent” means any person appointed as such pursuant to the Indenture.

“Auction Date” means, for the Series 2006A-1 Bonds and the Series 2006B-1 Bonds outstanding as ARCs, September 20, 2006, and thereafter, in each instance the Business Day immediately preceding the first day of each Interest Period other than;

- (a) each Interest Period commencing after the ownership of the ARCs is no longer maintained in book-entry form by the Depository;
- (b) each Interest Period commencing after the occurrence and during the continuance of a Payment Default; or
- (c) any Interest Period commencing less than the Applicable Number of Business Days after the cure or waiver of a Payment Default.

Notwithstanding the foregoing, the Auction Date for one or more Auction Periods may be changed as described under the caption “TAX-EXEMPT AUCTION RATE CERTIFICATES – Changes in Tax-Exempt ARC Auction Periods or Tax-Exempt ARC Auction Date and Changes to and from BMA Auction Mode” in the body of this Official Statement.

“Auction Period” means, with respect to any ARCs, the Interest Period applicable thereto as the same may be changed as described under the caption “TAX-EXEMPT AUCTION RATE CERTIFICATES – Changes in Tax-Exempt ARC Auction Periods or Tax-Exempt ARC Auction Date and Changes to and from BMA Auction Mode” in the body of this Official Statement.

"Auction Procedures" means the procedures set forth under "Auction Procedures Other than BMA Auction Mode" below or, in the case of ARCs in the BMA Auction Mode, "BMA Auction Procedures" below.

"Auction Rate" means the rate of interest per annum on any Auction Date that results from the implementation of the Auction Procedures as determined and described under "Auction Procedures Other than BMA Auction Mode" below, or in the case of ARCs in the BMA Auction Mode, the rate of interest per annum equal to the BMA Index Rate plus the BMA Auction Spread Rate that results in the implementation of the Auction Procedures, and determined as provided under "BMA Auction Procedures" below. From the date of issuance of the ARCs, the Auction Rate for the ARCs shall be determined as described under "Auction Procedures Other than BMA Auction Mode" below, unless and until converted to a BMA Auction Mode or until a Variable Rate Conversion Date or Fixed Rate Conversion Date.

"Authorized Denominations" means, with respect to the ARCs, \$25,000 and any multiple thereof; and otherwise as provided in the Indenture.

"BMA Auction Mode" means any Interest Period during which ARCs bear interest based upon the BMA Index Rate and the BMA Auction Rate Spread.

"BMA Auction Spread Rate" means a per annum rate in excess of the BMA Index Rate to be added thereto in determining the Auction Rate during the BMA Auction Mode.

"BMA Index Rate" means the rate for a BMA Weekly Reset Date determined on the basis of an index which is issued weekly and which is compiled from the weekly interest rate resets of tax exempt variable rate issues included in a data base maintained by Municipal Market Data which meet specific criteria established by The Bond Market Association and issued on Wednesday of each week, or if any Wednesday is not a U.S. Government Securities Business Day, the next succeeding U.S. Government Securities Business Day; provided that in the event Municipal Market Data no longer publishes such an index, the BMA Index Rate shall be the S&P Weekly High Grade Index. If, on any date, the Trustee is unable to obtain the BMA Index Rate because it has not yet been made publicly available, the Trustee may request such information from the Broker-Dealer and the Broker-Dealer shall promptly provide such information to the Trustee, to the extent it has knowledge thereof.

"BMA Weekly Period" means, during the BMA Auction Mode, each period beginning on a BMA Weekly Reset Date and continuing to but not including the immediately succeeding BMA Weekly Reset Date; provided, however, that if the first day of an Interest Period for which the BMA Auction Mode is to be in effect or continued for a new Interest Period is other than a BMA Auction Reset Date, then the first BMA Weekly Period during such Interest Period shall commence on such first day of such Interest Period and shall continue to (but not including) the immediately succeeding BMA Weekly Reset Date.

"BMA Weekly Reset Date" means each Thursday (or any other day specified by The Bond Market Association as a reset date), or if any Thursday is not a U.S. Government Securities Business Day, the next succeeding U.S. Government Securities Business Day.

"Broker-Dealer" means UBS Securities LLC or any other broker or dealer (each as defined in the Securities Exchange Act), commercial bank or other entity permitted by law to perform the functions required of a Broker-Dealer set forth in the Auction Procedures that (a) is a Participant (or an affiliate of a Participant), (b) has been selected by the Corporation with the approval of the Market Agent, and (c) has entered into a Broker-Dealer Agreement that remains effective.

"Broker-Dealer Agreement" means the Broker-Dealer Agreement dated as of August 1, 2006 between the Auction Agent and UBS Securities LLC, relating to the ARCs and each other agreement between the Auction Agent and a Broker-Dealer pursuant to which the Broker-Dealer agrees to participate in Auctions as set forth in the Auction Procedures, as from time to time amended or supplemented.

"Business Day" means any day other than a Saturday, Sunday, holiday or day on which banks located in the City of New York, New York, or the New York Stock Exchange, the Trustee or the Auction Agent, are

authorized or permitted by law or executive order to close or such other date as may be agreed to in writing by the Market Agent, the Auction Agent, the Broker-Dealer and the Corporation.

"Change of Preference Law" means, with respect to any Owner of ARCs, any amendment to the Code or other statute enacted by the Congress of the United States or any temporary, proposed or final regulations promulgated by the United States Treasury after the date hereof which (i) changes or would change any deduction, credit or other allowance allowable in computing liability for any federal tax with respect to, or (ii) imposes or would impose or reduces or would reduce or increases or would increase any federal tax (including, but not limited to, preference or excise taxes) upon, any interest earned by any holder of bonds the interest on which is excluded from federal gross income under Section 103 of the Code.

"Default Rate" on any date of determination, means the interest rate per annum equal to the lesser of (i) the Applicable Percentage of the S&P Weekly High Grade Index and (2) the Maximum Interest Rate.

"Existing Owner" means (i) with respect to and for the purpose of dealing with the Auction Agent in connection with an Auction, a Person who is a Broker-Dealer listed in the existing owner registry at the close of business on the Business Day immediately preceding the Auction Date for such Auction and (ii) with respect to and for the purpose of dealing with the Broker-Dealer in connection with an Auction, a Person who is a beneficial owner of ARCs.

"Fitch" means Fitch, Inc., New York, New York, and its successors and assigns.

"Fixed Rate" means the fixed rate or rates of interest on a series of Series 2006 Tax-Exempt Bonds determined pursuant to the Indenture.

"Fixed Rate Conversion Date" means a date on which a series of Series 2006 Tax-Exempt Bonds begin to bear interest at a Fixed Rate.

"Initial Interest Period" means, with respect to the Series 2006A-1 Bonds and the Series 2006B-1 Bonds, the period from the date of delivery of the Series 2006A-1 Bonds and the Series 2006B-1 Bonds and ending on and including September 20, 2006.

"Interest Payment Date" means, with respect to the Series 2006 Tax-Exempt Bonds, (a) while outstanding as ARCs, (i) each June 1 and December 1, commencing December 1, 2006, except as changed as described under the caption "TAX-EXEMPT AUCTION RATE CERTIFICATES – Changes in Tax-Exempt ARC Auction Periods or Tax Exempt ARC Auction Date" in the body of this Official Statement (or, if any such date is not a Business Day, the next succeeding Business Day (but only for interest accrued through the preceding May 31 or November 30, as applicable)), (ii) any day on which the Series 2006 Tax-Exempt Bonds are subject to mandatory tender for purchase or conversion to or from a BMA Auction Mode pursuant to the Indenture or redemption pursuant to the Indenture, and (iii) on the maturity date thereof, or if such date is not a Business Date, the next succeeding Business Day (but only for interest accrued through the day preceding the maturity date), (b) after the Variable Rate Conversion Date each June 1 and December 1 next following the Variable Rate Conversion Date and on any day on which Series 2006 Tax-Exempt Bonds are subject to mandatory tender for purchase pursuant to the Indenture, or redemption pursuant to the Indenture and (c) after the Fixed Rate Conversion Date, each June 1 and December 1 commencing with the June 1 and December 1 that occurs no sooner than three months after the Fixed Rate Conversion Date.

"Interest Period" means, (a) with respect to each series of Series 2006 Tax-Exempt Bonds, so long as interest is payable on June 1 and December 1 with respect thereto and unless otherwise changed as described under the caption "TAX-EXEMPT AUCTION RATE CERTIFICATES – Changes in Tax-Exempt ARC Auction Periods or Tax-Exempt ARC Auction Date and Changes to and from BMA Auction Mode" in the body of this Official Statement, the Initial Interest Period and each successive period of generally 35 days thereafter, respectively, commencing on a Thursday (or the Business Day following the last day of the prior Interest Period, if the prior Interest Period does not end on a Wednesday) and ending on (and including) a Wednesday (unless such Wednesday is not followed by a Business Day, in which case on the next succeeding day that is followed by a Business Day), and (b) with respect to the Series 2006 Tax-Exempt Bonds outstanding as ARCs, if, and for so long as, Interest

Payment Dates are specified to occur at the end of each Auction Period as described in the Indenture, each period commencing on an Interest Payment Date and ending on but excluding the next succeeding Interest Payment Date.

"Market Agent Agreement" means the Market Agent Agreement dated as of August 1, 2006, between the Trustee and the Market Agent, relating to the ARCs, and any similar agreement with a successor Market Agent, in each case as from time to time amended or supplemented.

"Maximum Interest Rate" means with respect to ARCs the lesser of (a) 12% per annum (or such higher rate, not in excess of 18%, as may be permitted by a Rating Confirmation and a Favorable Opinion) or (b) the maximum rate of interest permitted under the laws of the Commonwealth of Kentucky.

"Maximum Rate," on any date of determination, means the interest rate per annum equal to the lesser of:

(a) the Applicable Percentage of the higher of (i) the After-Tax Equivalent Rate on such date and (ii) the S&P Weekly High Grade Index on such date; and

(b) the Maximum Interest Rate;

rounded to the nearest thousandth (.001) of 1%.

"Owner" means the beneficial owner of any Series 2006 Tax-Exempt Bond.

"Participant" means a member of or participant in DTC.

"Payment Default" means failure to make payment of interest on, premium, if any, and principal of the ARCs when due, by the Corporation.

"Person" means and includes, unless otherwise specified, an individual, corporation, company, trust, estate, partnership or association.

"Potential Owner" means any Person (including any Existing Owner that is (a) a Broker-Dealer when dealing with an Auction Agent, and (b) a potential beneficial owner when dealing with a Broker-Dealer) who may be interested in acquiring ARCs (or, in the case of an Existing Owner thereof, an additional principal amount of ARCs).

"Record Date" means, with respect to the ARCs, one Business Day prior to each Interest Payment Date.

"Redemption Date", when used with respect to any ARCs to be redeemed, means the date fixed for such redemption.

"Remarketing Agent" means UBS Securities LLC or such other remarketing agent appointed by the Corporation pursuant to the Indenture.

"S&P Weekly High Grade Index" means the S&P Weekly High Grade Index (formerly the J.J. Kenny Index) maintained by Standard & Poor's Securities Evaluations Inc. as published on the day which is one U.S. Government Securities Business Day immediately preceding the Auction Date or BMA Weekly Reset Date, as applicable. If the S&P Weekly High Grade Index is no longer available, then the Market Agent shall announce a rate based upon the same criteria used by Standard & Poor's Securities Evaluations Inc. to determine the S&P Weekly High Grade Index and the rate announced by the Market Agent for each Auction Date or BMA Weekly Reset Date, as the case may be, shall be used in lieu of the S&P Weekly High Grade Index for each Auction Date or BMA Weekly Reset Date, as the case may be.

"Statutory Corporate Tax Rate" means, as of any date of determination, the highest tax rate bracket (expressed in decimals) now or hereafter applicable in each taxable year on the taxable income of every corporation

as set forth in Section 11 of the Code or any successor section without regard to any minimum additional tax provision or provisions regarding changes in rates during a taxable year, which on the date hereof is 35%.

"Submission Deadline" means 1:00 p.m. (New York City time), on any Auction Date or such other time on any Auction Date by which Broker-Dealers are required to submit Orders to the Auction Agent, as specified by the Auction Agent from time to time.

"Submission Processing Deadline" means the earlier of (a) 40 minutes after the Submission Deadline, and (b) the time when the Auction Agent begins to disseminate the results of the Auction to the Broker-Dealers.

"Submission Processing Representation" has the meaning specified below under Section (b)(xi) of "Auction Procedures Other than BMA Auction Mode" and Section (b)(xi) of "BMA Auction Procedures."

"U.S. Government Securities Business Day" means any day except for a Saturday, Sunday or a day on which The Bond Market Association recommends that the fixed income departments of its members be closed for the entire day for purposes of trading in U.S. government securities.

"Variable Rate" means the variable rate or rates of interest, or manner of determining the same, on any series of Series 2006 Tax-Exempt Bonds determined pursuant to the provisions of the Indenture.

"Variable Rate Conversion Date" means a date on which any series of Series 2006 Tax-Exempt Bonds begin to bear interest at a Variable Rate as provided in the Indenture.

"Winning Bid Rate" is used as defined below under paragraph (c)(i)(C) of "Auction Procedures Other than BMA Auction Mode" and paragraph (c)(i)(B) of "BMA Auction Procedures."

Auction Procedures Other than BMA Auction Mode

Prior to a Fixed Rate Conversion Date or a Variable Rate Conversion Date, Auctions (other than Auctions which are held immediately prior to conversion to a BMA Auction Mode or during a BMA Auction Mode if the BMA Auction Mode is to be continued as provided in "BMA Auction Procedures" below) shall be conducted on each Auction Date (other than the Auction Date immediately preceding (i) each Interest Period commencing after the ownership of the ARCs is no longer maintained in book-entry form by DTC; (ii) each Interest Period commencing after the occurrence and during the continuance of a Payment Default; or (iii) any Interest Period commencing less than two Business Days after the cure of a Payment Default). If there is an Auction Agent on such Auction Date, auctions shall be conducted in the following manner (such procedures to apply separately to each series of ARCs):

(a) *Submission By Existing Owners and Potential Owners.*

(i) Prior to the Submission Deadline on each Auction Date:

(A) each Existing Owner of ARCs may submit to a Broker-Dealer information as to: (1) the principal amount of Outstanding ARCs, if any, held by such Existing Owner which such Existing Owner desires to continue to hold without regard to the Auction Rate for the next succeeding Interest Period; (2) the principal amount of Outstanding ARCs, if any, which such Existing Owner offers to sell if the Auction Rate for the next succeeding Interest Period shall be less than the rate per annum specified by such Existing Owner; and/or (3) the principal amount of Outstanding ARCs, if any, held by such Existing Owner which such Existing Owner offers to sell without regard to the Auction Rate for the next succeeding Interest Period; and

(B) one or more Broker-Dealers may contact Potential Owners to determine the principal amount of ARCs which each such Potential Owner offers to purchase if the Auction Rate for the next succeeding Interest Period shall not be less than the rate per annum specified by such Potential Owner.

The communication to a Broker-Dealer of information referred to in clause (A)(1), (A)(2), (A)(3) or (B) of this subsection (a)(i) is hereinafter referred to as an "Order" and collectively as "Orders." Each Existing Owner and each Potential Owner placing an Order is hereinafter referred to as a "Bidder" and collectively as "Bidders." An Order containing the information referred to in clause (A)(1) of this subsection (a)(i) is hereinafter referred to as a "Hold Order" and collectively as "Hold Orders." An Order containing the information referred to in clause (A)(2) or (B) of this subsection (a)(i) is hereinafter referred to as a "Bid" and collectively as "Bids." An order containing the information referred to in clause (A)(3) of this subsection (a)(i) is hereinafter referred to as a "Sell Order" and collectively as "Sell Orders."

(ii) (A) Subject to the provisions of subsection (b) below, a Bid by an Existing Owner shall constitute an irrevocable offer to sell: (1) the principal amount of Outstanding ARCs specified in such Bid if the Auction Rate determined shall be less than the rate specified in such Bid; or (2) such principal amount or a lesser principal amount of Outstanding ARCs to be determined as set forth in clause (D) of paragraph (i) of subsection (d) below, if the Auction Rate determined shall be equal to the rate specified in such Bid; or (3) such principal amount or a lesser principal amount of Outstanding ARCs to be determined as set forth in clause (C) of paragraph (ii) of subsection (d) below if the rate specified shall be higher than the Maximum Rate and Sufficient Clearing Bids have not been made.

(B) Subject to the provisions of subsection (b) below, a Sell Order by an Existing Owner shall constitute an irrevocable offer to sell: (i) the principal amount of Outstanding ARCs specified in such Sell Order; or (2) such principal amount or a lesser principal amount of Outstanding ARCs as set forth in clause (C) of paragraph (ii) of subsection (d) below if Sufficient Clearing Bids have not been made.

(C) Subject to the provisions of subsection (b) below, a Bid by a Potential Owner shall constitute an irrevocable offer to purchase: (1) the principal amount of Outstanding ARCs specified in such Bid if the Auction Rate determined shall be higher than the rate specified in such Bid; or (2) such principal amount or a lesser principal amount of Outstanding ARCs as set forth in clause (E) of paragraph (i) of subsection (d) below if the Auction Rate determined shall be equal to the rate specified in such Bid.

(b) *Submission by Broker-Dealers to the Auction Agent.*

(i) Each Broker-Dealer shall submit in writing to the Auction Agent prior to the Submission Deadline (subject to clause (xi) below) on each Auction Date all Orders obtained by such Broker-Dealer and shall specify with respect to each such Order:

(A) the name of the Bidder placing such Order,

(B) the aggregate principal amount of ARCs that are the subject of such Order,

(C) to the extent that such Bidder is an Existing Owner: (1) the principal amount of ARCs, if any, subject to any Hold Order placed by such Existing Owner; (2) the principal amount of ARCs, if any, subject to any Bid placed by such Existing Owner and the rate specified in such Bid; and (3) the principal amount of ARCs, if any, subject to any Sell Order placed by such Existing Owner; and

(D) to the extent such Bidder is a Potential Owner, the rate and amount specified in such Potential Owner's Bid.

(ii) If any rate specified in any Bid contains more than three figures to the right of the decimal point, the Auction Agent shall round such rate up to the next highest one-thousandth (.001) of 1%.

(iii) If an Order or Orders covering all Outstanding ARCs held by any Existing Owner is not submitted to the Auction Agent prior to the Submission Processing Deadline, the Auction Agent shall deem a Hold Order to have been submitted on behalf of such Existing Owner covering the principal amount of Outstanding ARCs held by such Existing Owner and not subject to an Order submitted to the Auction Agent.

(iv) None of the Corporation, the Trustee nor the Auction Agent shall be responsible for any failure of a Broker-Dealer to submit an Order to the Auction Agent on behalf of any Existing Owner or Potential Owner.

(v) If any Existing Owner submits through a Broker-Dealer to the Auction Agent one or more Orders covering in the aggregate more than the principal amount of Outstanding ARCs held by such Existing Owner, such Orders shall be considered valid as follows and in the following order of priority:

(A) all Hold Orders shall be considered valid, but only up to and including in the aggregate the principal amount of ARCs held by such Existing Owner, and if the aggregate principal amount of ARCs subject to such Hold Orders exceeds the aggregate principal amount of ARCs held by such Existing Owner, the aggregate principal amount of ARCs subject to each such Hold Order shall be reduced pro rata to cover the aggregate principal amount of Outstanding ARCs held by such Existing Owner.

(B) (1) any Bid shall be considered valid up to and including the excess of the principal amount of Outstanding ARCs held by such Existing Owner over the aggregate principal amount of ARCs subject to any Hold Orders referred to in clause (A) of this paragraph (v); (2) subject to subclause (1) of this clause (B), if more than one Bid with the same rate is submitted on behalf of such Existing Owner and the aggregate principal amount of Outstanding ARCs subject to such Bids is greater than such excess, such Bids shall be considered valid up to and including the amount of such excess and the stated amount of ARCs subject to each Bid with the same rate shall be reduced pro rata to cover the stated amount of ARCs equal to such excess; (3) subject to subclauses (1) and (2) of this clause (B), if more than one Bid with different rates is submitted on behalf of such Existing Owner, such Bids shall be considered valid first in the ascending order of their respective rates until the highest rate is reached at which such excess exists and then at such rate up to and including the amount of such excess; and (4) in any such event, the aggregate principal amount of Outstanding ARCs, if any, subject to Bids not valid under this clause (B) shall be treated as the subject of a Bid by a Potential Owner at the rate therein specified; and

(C) all Sell Orders shall be considered valid up to and including the excess of the principal amount of Outstanding ARCs held by such Existing Owner over the aggregate principal amount of ARCs subject to valid Hold Orders referred to in clause (A) of this paragraph (v) and valid Bids referred to in clause (B) of this paragraph (v).

(vi) If more than one Bid for ARCs is submitted on behalf of any Potential Owner, each Bid submitted shall be a separate Bid with the rate and principal amount therein specified.

(vii) Any Bid or Sell Order submitted by an Existing Owner covering an aggregate principal amount of ARCs not equal to an Authorized Denomination therefor shall be rejected and shall be deemed a Hold Order. Any Bid submitted by a Potential Owner covering an aggregate principal amount of ARCs not equal to \$25,000 or any multiple thereof shall be rejected.

(viii) Any Bid submitted by an Existing Owner or a Potential Owner specifying a rate lower than the All-Hold Rate shall be treated as a Bid specifying the All-Hold Rate and each such Bid shall be considered as valid and shall be selected in the ascending order of their respective rates in the Submitted Bids.

(ix) An Existing Owner that offers to purchase additional ARCs is, for purposes of such offer, treated as a Potential Owner.

(x) Any bid specifying a rate higher than the Maximum Interest Rate will (A) be treated as a Sell Order if submitted by an Existing Owner; and (B) not be accepted if submitted by a Potential Owner.

(xi) Notwithstanding the above provisions, a Broker-Dealer may submit an Order after the Submission Deadline and prior to the Submission Processing Deadline if the Order was (A) received by the Broker-Dealer from Existing Owners or Potential Owners prior to the Submission Deadline or (B) initiated internally by the Broker-Dealer for its own account prior to the Submission Deadline. Each Order submitted to the Auction Agent after the Submission Deadline and prior to the Submission Processing Deadline shall constitute a representation by the Broker-Dealer that such Order was (1) received from an Existing Owner or Potential Owner prior to the Submission Deadline or (2) initiated internally by the Broker-Dealer for its own account prior to the Submission Deadline (the "Submission Processing Representation").

(c) *Determination of Sufficient Clearing Bids, Auction Rate and Winning Bid Rate.*

(i) Not earlier than the Submission Processing Deadline on each Auction Date, the Auction Agent shall assemble all valid Orders submitted or deemed submitted to it by the Broker-Dealers (each such Order as submitted or deemed submitted by a Broker-Dealer being hereinafter referred to individually as a "Submitted Hold Order," a "Submitted Bid" or a "Submitted Sell Order," as the case may be, or as a "Submitted Order" and collectively as "Submitted Hold Orders," "Submitted Bids" or "Submitted Sell Orders," as the case may be, or as "Submitted Orders") and shall determine:

(A) the excess of the total principal amount of Outstanding ARCs over the sum of the aggregate principal amount of Outstanding ARCs subject to Submitted Hold Orders (such excess being hereinafter referred to as the "Available ARCs"); and

(B) from such Submitted Orders whether (1) the aggregate principal amount of Outstanding ARCs subject to Submitted Bids by Potential Owners specifying one or more rates equal to or lower than the Maximum Rate; exceeds or is equal to the sum of : (2) the aggregate principal amount of Outstanding ARCs subject to Submitted Bids by Existing Owners specifying one or more rates higher than the Maximum Rate; and (3) the aggregate principal amount of Outstanding ARCs subject to Submitted Sell Orders; (in the event such excess or such equality exists, other than because the sum of the principal amounts of ARCs in subclauses (2) and (3) above is zero because all of the Outstanding ARCs are subject to Submitted Hold Orders, such Submitted Bids in subclause (1) above being hereinafter referred to collectively as "Sufficient Clearing Bids"); and

(C) if Sufficient Clearing Bids exist, the lowest rate specified in such Submitted Bids (which shall be the "Winning Bid Rate") such that if: (1)(aa) each such Submitted Bid from Existing Owners specifying such lowest rate and (bb) all other Submitted Bids from Existing Owners specifying lower rates were rejected, thus entitling such Existing Owners to continue to hold the principal amount of ARCs subject to such Submitted Bids; and (2)(aa) each such Submitted Bid from Potential Owners specifying such lowest rate and (bb) all other Submitted Bids from Potential Owners specifying lower rates were accepted; the result would be that such Existing Owners described in subclause (1) above would continue to hold an aggregate principal amount of Outstanding ARCs which, when added to the aggregate principal amount of Outstanding ARCs to be purchased by such Potential Owners described in subclause (2) above, would equal not less than the Available ARCs.

(ii) Promptly after the Auction Agent has made the determinations pursuant to paragraph (i) of this subsection (c), the Auction Agent shall advise the Trustee of the Maximum Rate and the All-Hold Rate and the components thereof on the Auction Date and, based on such determinations, the Auction Rate for the next succeeding Interest Period (the "Auction Rate") as follows:

(A) if Sufficient Clearing Bids have been made, that the Auction Rate for the next succeeding Interest Period shall be equal to the Winning Bid Rate so determined;

(B) if Sufficient Clearing Bids have not been made (other than because all of the Outstanding ARCs are subject to Submitted Hold Orders), that the Auction Rate for the next succeeding Interest Period shall be equal to the Maximum Rate; or

(C) if all Outstanding ARCs are subject to Submitted Hold Orders, that the Auction Rate for the next succeeding Interest Period shall be equal to the All-Hold Rate.

(d) *Acceptance and Rejection of Submitted Bids and Submitted Sell Orders and Allocation of ARCs.*

Existing Owners shall continue to hold the principal amount of ARCs that are subject to Submitted Hold Orders, and, based on the determinations made pursuant to paragraph (i) of subsection (c), Submitted Bids and Submitted Sell Orders shall be accepted or rejected and the Auction Agent shall take such other action as set forth below:

(i) If Sufficient Clearing Bids have been made, all Submitted Sell Orders shall be accepted and, subject to the provisions of paragraph (iv) of this subsection (d), Submitted Bids shall be accepted or rejected as follows in the following order of priority and all other Submitted Bids shall be rejected:

(A) Existing Owners' Submitted Bids specifying any rate that is higher than the Winning Bid Rate shall be accepted, thus requiring each such Existing Owner to sell the aggregate principal amount of ARCs subject to such Submitted Bids;

(B) Existing Owners' Submitted Bids specifying any rate that is lower than the Winning Bid Rate shall be rejected, thus entitling each such Existing Owner to continue to hold the aggregate principal amount of ARCs subject to such Submitted Bids;

(C) Potential Owners' Submitted Bids specifying any rate that is lower than the Winning Bid Rate shall be accepted, thus requiring such Potential Owner to purchase the aggregate principal amount of ARCs subject to such Submitted Bids;

(D) each Existing Owners' Submitted Bid specifying a rate that is equal to the Winning Bid Rate shall be rejected, thus entitling such Existing Owner to continue to hold the aggregate principal amount of ARCs subject to such Submitted Bid, unless the aggregate principal amount of Outstanding ARCs subject to all such Submitted Bids shall be greater than the principal amount of ARCs (the "remaining principal amount") equal to the excess of the Available ARCs over the aggregate principal amount of ARCs subject to Submitted Bids described in clauses (B) and (C) of this paragraph (i), in which event such Submitted Bid of such Existing Owner shall be rejected in part, and such Existing Owner shall be entitled to continue to hold the principal amount of ARCs subject to such Submitted Bid, but only in an amount equal to the aggregate principal amount of ARCs obtained by multiplying the remaining principal amount by a fraction the numerator of which shall be the principal amount of Outstanding ARCs held by such Existing Owner subject to such Submitted Bid and the denominator of which shall be the sum of the principal amount of Outstanding ARCs subject to such Submitted Bids made by all such Existing Owners that specified a rate equal to the Winning Bid Rate; and

(E) each Potential Owner's Submitted Bid specifying a rate that is equal to the Winning Bid Rate shall be accepted but only in an amount equal to the principal amount of ARCs obtained by multiplying the excess of the aggregate principal amount of Available ARCs over the aggregate principal amount of ARCs subject to Submitted Bids described in clauses (B), (C) and (D) of this paragraph (i) by a fraction the numerator of which shall be the aggregate principal amount of Outstanding ARCs subject to such Submitted Bid and the denominator of which shall be the sum of the principal amounts of Outstanding ARCs subject to Submitted Bids made by all such Potential Owners that specified a rate equal to the Winning Bid Rate.

(ii) If Sufficient Clearing Bids have not been made (other than because all of the Outstanding ARCs are subject to Submitted Hold Orders), subject to the provisions of paragraph (iv) of this subsection (d), Submitted Orders shall be accepted or rejected as follows in the following order of priority and all other Submitted Bids shall be rejected:

(A) Existing Owners' Submitted Bids specifying any rate that is equal to or lower than the Maximum Rate shall be rejected, thus entitling such Existing Owners to continue to hold the aggregate principal amount of ARCs subject to such Submitted Bids;

(B) Potential Owners' Submitted Bids specifying any rate that is equal to or lower than the Maximum Rate shall be accepted, thus requiring each Potential Owner to purchase the aggregate principal amount of ARCs subject to such Submitted Bids; and

(C) each Existing Owner's Submitted Bid specifying any rate that is higher than the Maximum Rate and the Submitted Sell Order of each Existing Owner shall be accepted, thus entitling each Existing Owner that submitted any such Submitted Bid or Submitted Sell Order to sell the ARCs subject to such Submitted Bid or Submitted Sell Order, but in both cases only in an amount equal to the aggregate principal amount of ARCs obtained by multiplying the aggregate principal amount of ARCs subject to Submitted Bids described in clause (B) of this paragraph (ii) by a fraction the numerator of which shall be the aggregate principal amount of Outstanding ARCs held by such Existing Owner subject to such Submitted Bid or Submitted Sell Order and the denominator of which shall be the aggregate principal amount of Outstanding ARCs subject to all such Submitted Bids and Submitted Sell Orders.

(iii) If all Outstanding ARCs are subject to Submitted Hold Orders, all Submitted Bids shall be rejected.

If, as a result of the procedures described in paragraph (i) or (ii) above, any Existing Owner would be entitled or required to sell, or any Potential Owner would be entitled or required to purchase, a principal amount of ARCs that is not equal to an Authorized Denomination therefor, the Auction Agent shall, in such manner as, in its sole discretion, it shall determine, round up or down the principal amount of ARCs to be purchased or sold by any Existing Owner or Potential Owner so that the principal amount of ARCs purchased or sold by each Existing Owner or Potential Owner shall be equal to an Authorized Denomination, even if such allocation results in one or more of such Potential Owners not purchasing any ARCs.

(e) Based on the results of each Auction, the Auction Agent shall determine the aggregate principal amount of ARCs to be purchased and the aggregate principal amount of ARCs to be sold by Potential Owners and Existing Owners on whose behalf each Broker-Dealer Submitted Bids or Sell Orders and, with respect to each Broker-Dealer, to the extent that such aggregate principal amount of ARCs to be sold differs from such aggregate principal amount of ARCs to be purchased, determine to which other Broker-Dealer or Broker-Dealers acting for one or more purchasers such Broker-Dealer shall deliver, or from which other Broker-Dealers acting for one or more Sellers such Broker-Dealer shall receive, as the case may be, ARCs.

The Broker-Dealer Agreement will provide that a Broker-Dealer may submit an order in Auctions for its own account. A Broker-Dealer may also bid in an Auction in order to prevent what would otherwise be (a) a failed Auction, (b) an "all-hold" Auction, or (c) the implementation of an Auction Rate that the Broker-Dealer believes, in its sole judgment, does not reflect the market for such securities at the time of the Auction. Broker-Dealers may, but are not obligated to, advise holders of ARCs that the Auction Rate that will apply in an "all-hold" Auction is often a lower rate than would apply if holders submit Bids, and such advice, if given, may facilitate the submission of Bids by existing holders that would avoid the occurrence of an "all-hold" Auction. A Broker-Dealer may encourage bidding by others to prevent a failed Auction or an Auction Rate it believes is not a market rate (although it should encourage bidding at a rate to prevent an All Hold Rate). In the Broker-Dealer Agreement, the Broker-Dealer shall agree to handle customer orders in accordance with its duties under applicable securities laws and rules.

BMA Auction Procedures

Prior to a Variable Rate Conversion Date or a Fixed Rate Conversion Date, and while ARCs bear interest in a BMA Auction Mode and on the Auction Date immediately preceding the effective date of a BMA Auction Mode (but not the Auction Date immediately preceding a change out of a BMA Auction Mode as provided under the Indenture) Auctions shall be conducted on each Auction Date (other than the Auction Date immediately preceding (a) each Interest Period commencing after the ownership of the ARCs is no longer maintained in book-entry form by the Depository; (b) each Interest Period commencing after the occurrence and during the continuance of a Payment Default; or (c) any Interest Period commencing less than two Business Days after the cure of a Payment Default). If there is an Auction Agent on such Auction Date, Auctions shall be conducted in the following manner (such procedures to apply separately to the ARCs of each series of the Series 2006 Tax-Exempt Bonds).

(a) *Submission by Existing Owners to Broker-Dealer.*

(i) Prior to the Submission Deadline on each Auction Date:

(A) each Existing Owner of ARCs may submit to a Broker-Dealer information as to:

(1) the principal amount of Outstanding ARCs, if any, which such Existing Owner offers to sell if the BMA Auction Spread Rate for the next succeeding Interest Period shall be less than the BMA Auction Spread Rate specified by such Existing Owner; and/or

(2) the principal amount of Outstanding ARCs, if any, held by such Existing Owner which such Existing Owner offers to sell without regard to the BMA Auction Spread Rate for the next succeeding Interest Period; and

(B) one or more Broker-Dealers may contact Potential Owners to determine the principal amount of ARCs which each such Potential Owner offers to purchase if the BMA Auction Spread Rate for the next succeeding Interest Period shall not be less than the BMA Auction Spread Rate specified by such Potential Owner.

For the purposes hereof, the communication to a Broker-Dealer of information referred to in clause (A)(1), (A)(2) or (B) of this paragraph (i) is hereinafter referred to as an "Order" and collectively as "Orders" and each Existing Owner and each Potential Owner placing an Order is hereinafter referred to as a "Bidder" and collectively as "Bidders;" an Order containing the information referred to in (y) clause (A)(1) or (B) of this paragraph (i) is hereinafter referred to as a "Bid" and collectively as "Bids" and (z) clause (A)(2) of this paragraph (i) is hereinafter referred to as a "Sell Order" and collectively as "Sell Orders."

(ii) (A) Subject to the provisions of subsection (b) below, a Bid by an Existing Owner shall constitute an irrevocable offer to sell:

(1) the principal amount of Outstanding ARCs specified in such Bid if the BMA Auction Spread Rate determined shall be less than the BMA Auction Spread Rate specified in such Bid; or

(2) such principal amount or a lesser principal amount of Outstanding ARCs to be determined as set forth in clause (D) of paragraph (i) of subsection (d) below, if the BMA Auction Spread Rate determined shall be equal to the rate specified in such Bid; or

(3) the principal amount of Outstanding ARCs specified in such Bid if the BMA Auction Spread Rate specified shall result in an Auction Rate on the Auction Date

higher than the Maximum Rate on the Auction Date and Sufficient Clearing Bids have not been made.

(B) Subject to the provisions of subsection (b) below, a Sell Order by an Existing Owner shall constitute an irrevocable offer to sell:

(1) the principal amount of Outstanding ARCs specified in such Sell Order; or

(2) the principal amount of Outstanding ARCs specified in such Bid if Sufficient Clearing Bids have not been made;

(C) Subject to the provisions of subsection (b) below, a Bid by a Potential Owner shall constitute an irrevocable offer to purchase:

(1) the principal amount of Outstanding ARCs specified in such Bid if the BMA Auction Spread Rate determined shall be higher than the BMA Auction Spread Rate specified in such Bid; or

(2) such principal amount or a lesser principal amount of Outstanding ARCs as set forth in clause (E) of paragraph (i) of subsection (d) below if the BMA Auction Spread Rate determined shall be equal to the BMA Auction Spread Rate specified in such Bid.

(b) *Submission by Broker-Dealer to Auction Agent.*

(i) Each Broker-Dealer shall submit in writing to the Auction Agent prior to the Submission Deadline (subject to clause (x) below) on each Auction Date all Orders obtained by such Broker-Dealer and shall specify with respect to each such Order:

(A) the name of the Bidder placing such Order;

(B) the aggregate principal amount of ARCs that are the subject of such Order;

(C) to the extent that such Bidder is an Existing Owner:

(1) the principal amount of ARCs, if any, subject to any Bid placed by such Existing Owner and the BMA Auction Spread Rate specified in such Bid; and

(2) the principal amount of ARCs, if any, subject to any Sell Order placed by such Existing Owner; and

(D) to the extent such Bidder is a Potential Owner, the BMA Auction Spread Rate and amount specified in such Potential Owner's Bid.

(ii) If any rate specified in any Bid contains more than three figures to the right of the decimal point, the Auction Agent shall round such rate up to the next highest one thousandth (.001) of 1%.

(iii) If an Order or Orders covering all Outstanding ARCs held by any Existing Owner is not submitted to the Auction Agent prior to the Submission Processing Deadline, the Auction Agent shall deem a Sell Order to have been submitted on behalf of such Existing Owner covering the principal amount of Outstanding ARCs held by such Existing Owner and not subject to an Order submitted to the Auction Agent.

(iv) Neither the Corporation, the Trustee nor the Auction Agent shall be responsible for any failure of a Broker-Dealer to submit an Order to the Auction Agent on behalf of any Existing Owner or Potential Owner.

(v) If any Existing Owner submits through a Broker-Dealer to the Auction Agent one or more Orders covering in the aggregate more than the principal amount of Outstanding ARCs held by such Existing Owner, such Orders shall be considered valid as follows and in the following order of priority:

(A) (1) any Bid shall be considered valid up to and including the principal amount of Outstanding ARCs held by such Existing Owner;

(2) subject to subclause (1) of this clause (A), if more than one Bid with the same BMA Auction Spread Rate is submitted on behalf of such Existing Owner and the aggregate principal amount of Outstanding ARCs subject to such Bids is greater than the principal amount of Outstanding ARCs held by such Existing Owner, such Bids shall be considered valid up to and including the principal amount of Outstanding ARCs held by such Existing Owner and the stated amount of ARCs subject to each Bid with the same BMA Auction Spread Rate shall be reduced pro rata to cover the principal amount of Outstanding ARCs held by such Existing Owner;

(3) subject to subclause (1) and (2) of this clause (A), if more than one Bid with different BMA Auction Spread Rates is submitted on behalf of such Existing Owner, such Bids shall be considered valid first in the ascending order of their respective BMA Auction Spread Rates until the highest BMA Auction Spread Rate is reached at which the principal amount of Outstanding ARCs held by such Existing Owner exists and then at such BMA Auction Spread Rate up to and including the principal amount of Outstanding ARCs held by such Existing Owner; and

(4) in any such event, the aggregate principal amount of Outstanding ARCs, if any, subject to Bids not valid under this clause (A) shall be treated as the subject of a Bid by a Potential Owner at the BMA Auction Spread Rate therein specified; and

(B) all Sell Orders shall be considered valid up to and including the principal amount of Outstanding ARCs held by such Existing Owner over the aggregate principal amount of ARCs subject to valid Bids referred to in clause (A) of this paragraph (v).

(vi) If more than one Bid for ARCs is submitted on behalf of any Potential Owner, each Bid submitted shall be a separate Bid with the BMA Auction Spread Rate and principal amount therein specified.

(vii) Any Bid or Sell Order submitted by an Existing Owner covering an aggregate principal amount of ARCs not equal to an Authorized Denomination therefor shall be rejected and shall be deemed a Sell Order for the entire amount of ARCs owned by such Existing Owner. Any Bid submitted by a Potential Owner covering an aggregate principal amount of ARCs not equal to an Authorized Denomination therefor shall be rejected.

(viii) An Existing Owner that offers to purchase additional ARCs is, for purposes of such offer, treated as a Potential Owner.

(ix) Any Bid specifying a BMA Auction Spread Rate which would result in an Auction Rate on the Auction Date higher than the Maximum Interest Rate on the Auction Date will (A) be treated as a Sell Order if submitted by an Existing Owner and (B) not be accepted if submitted by a Potential Owner.

(x) Notwithstanding the above provisions, a Broker-Dealer may submit an Order after the Submission Deadline and prior to the Submission Processing Deadline if the Order was (A) received by the Broker-Dealer from Existing Owners or Potential Owners prior to the Submission Deadline or (B) initiated internally by the Broker-Dealer for its own account prior to the Submission Deadline. Each Order submitted to the Auction Agent after the Submission Deadline and prior to the Submission Processing Deadline shall constitute a representation by the Broker-Dealer that such Order was (1) received from an Existing Owner or Potential Owner prior to the Submission Deadline or (2) initiated internally by the Broker-Dealer for its own account prior to the Submission Deadline (the "Submission Processing Representation").

(c) *Determination of Sufficient Clearing Bids, BMA Auction Spread Rate and Winning Bid.*

(i) Not earlier than the Submission Processing Deadline on each Auction Date, the Auction Agent shall assemble all valid Orders submitted or deemed submitted to it by the Broker-Dealers (each such Order as submitted or deemed submitted by a Broker-Dealer being hereinafter referred to individually as a "Submitted Bid" or a "Submitted Sell Order," as the case may be, or as a "Submitted Order" and collectively as "Submitted Bids" or "Submitted Sell Orders," as the case may be, or as "Submitted Orders") and shall determine:

(A) from such Submitted Orders whether:

(1) the aggregate principal amount of Outstanding ARCs subject to Submitted Bids by Potential Owners specifying one or more BMA Auction Spread Rates which would result in an Auction Rate on the Auction Date equal to or lower than the Maximum Rate on the Auction Date, exceeds or is equal to the sum of:

(2) the aggregate principal amount of Outstanding ARCs subject to Submitted Bids by Existing Owners specifying one or more BMA Auction Spread Rates which would result in an Auction Rate on the Auction Date higher than the Maximum Rate on the Auction Date; and

(3) the aggregate principal amount of Outstanding ARCs subject to Submitted Sell Orders;

(in the event such excess or such equality exists, such Submitted Bids in subclause (1) above being hereinafter referred to collectively as "Sufficient Clearing Bids"); and

(B) if Sufficient Clearing Bids have been made, the lowest BMA Auction Spread Rate specified in such Submitted Bids (which shall be the "Winning Bid Rate") such that if:

(1) (aa) each such Submitted Bid from Existing Owners specifying such lowest BMA Auction Spread Rate and (bb) all other Submitted Bids from Existing Owners specifying lower BMA Auction Spread Rates were rejected, thus entitling such Existing Owners to continue to hold the principal amount of ARCs subject to such Submitted Bids; and

(2) (aa) each such Submitted Bid from Potential Owners specifying such lowest BMA Auction Spread Rate and (bb) all other Submitted Bids from Potential Owners specifying lower BMA Auction Spread Rates were accepted;

the result would be that such Existing Owners described in subclause (1) above would continue to hold an aggregate principal amount of Outstanding ARCs which, when added to the aggregate principal amount of Outstanding ARCs to be purchased by such Potential Owners described in subclause (2) above, would equal not less than the aggregate principal amount of the ARCs.

(ii) Promptly after the Auction Agent has made the determinations as described under paragraph (i) of this subsection (c), the Auction Agent shall advise the Trustee of the Maximum Rate and the components thereof on the Auction Date and, based on such determinations, the BMA Auction Spread Rate for the next succeeding Interest Period (the "BMA Auction Spread Rate") as follows:

(A) if Sufficient Clearing Bids have been made, that the BMA Auction Spread Rate for the next succeeding Interest Period shall be equal to the Winning Bid Rate so determined; or

(B) if Sufficient Clearing Bids have not been made, that the BMA Auction Mode shall no longer be in effect, that the Interest Period shall be 35 days and that the Auction Rate for the next succeeding Interest Period shall be equal to the Maximum Rate until the next Auction is held.

(d) *Acceptance and Rejection of Submitted Bids and Submitted Sell Orders and Allocation of ARCs.*

Based on the determinations made as described under paragraph (i) of subsection (c) above, Submitted Bids and Submitted Sell Orders shall be accepted or rejected and the Auction Agent shall take such other action as set forth below:

(i) If Sufficient Clearing Bids have been made, all Submitted Sell Orders shall be accepted and Submitted Bids shall be accepted or rejected as follows in the following order of priority and all other Submitted Bids shall be rejected:

(A) Existing Owners' Submitted Bids specifying any BMA Auction Spread Rate that is higher than the Winning Bid Rate shall be accepted, thus requiring each such Existing Owner to sell the aggregate principal amount of ARCs subject to such Submitted Bids;

(B) Existing Owners' Submitted Bids specifying any BMA Auction Spread Rate that is lower than the Winning Bid Rate shall be rejected, thus entitling each such Existing Owner to continue to hold the aggregate principal amount of ARCs subject to such Submitted Bids;

(C) Potential Owners' Submitted Bids specifying any BMA Auction Spread Rate that is lower than the Winning Bid Rate shall be accepted, thus requiring such Potential Owner to purchase the aggregate principal amount of ARCs subject to such Submitted Bids;

(D) each Existing Owners' Submitted Bid specifying a BMA Auction Spread Rate that is equal to the Winning Bid Rate shall be rejected, thus entitling such Existing Owner to continue to hold the aggregate principal amount of ARCs subject to such Submitted Bid, unless the aggregate principal amount of Outstanding ARCs subject to all such Submitted Bids shall be greater than the principal amount of ARCs (the "remaining principal amount") equal to the excess of the Available ARCs over the aggregate principal amount of ARCs subject to Submitted Bids described in clauses (B) and (C) of this paragraph (i), in which event such Submitted Bid of such Existing Owner shall be rejected in part, and such Existing Owner shall be entitled to continue to hold the principal amount of ARCs subject to such Submitted Bid, but only in an amount equal to the aggregate principal amount of ARCs obtained by multiplying the remaining principal amount by a fraction the numerator of which shall be the principal amount of Outstanding ARCs held by such Existing Owner subject to such Submitted Bid and the denominator of which shall be the sum of the principal amount of Outstanding ARCs subject to such Submitted Bids made by all such Existing Owners that specified a BMA Auction Spread Rate equal to the Winning Bid Rate; and

(E) each Potential Owner's Submitted Bid specifying a BMA Auction Spread Rate that is equal to the Winning Bid Rate shall be accepted but only in an amount equal to the principal amount of ARCs obtained by multiplying the aggregate principal amount of ARCs subject to Submitted Bids described in clauses (B), (C) and (D) of this paragraph (i) by a fraction

the numerator of which shall be the aggregate principal amount of Outstanding ARCs subject to such Submitted Bid and the denominator of which shall be the sum of the principal amounts of Outstanding ARCs subject to Submitted Bids made by all such Potential Owners that specified a BMA Auction Spread Rate equal to the Winning Bid Rate.

(ii) If Sufficient Clearing Bids have not been made then the BMA Auction Mode shall no longer be in effect, the Interest Period shall be 35 days, the Auction Rate for the next succeeding Interest Period shall be the Maximum Rate until the next Auction is held and the Existing Owners shall retain all of their ARCs.

If, as a result of the procedures described in paragraph (i) of this subsection (d), any Existing Owner would be entitled or required to sell, or any Potential Owner would be entitled or required to purchase, a principal amount of ARCs that is not equal to an Authorized Denomination therefor the Auction Agent shall, in such manner as it shall, in its sole discretion, determine, round up or down the principal amount of ARCs to be purchased or sold by any Existing Owner or Potential Owner so that the principal amount of ARCs purchased or sold by each Existing Owner or Potential Owner shall be equal to an Authorized Denomination, even if such allocation results in one or more of such Potential Owners not purchasing any ARCs.

(e) Based on the results of each Auction, the Auction Agent shall determine the aggregate principal amount of ARCs to be purchased and the aggregate principal amount of ARCs to be sold by Potential Owners and Existing Owners on whose behalf each Broker-Dealer submitted Bids or Sell Orders and, with respect to each Broker-Dealer, to the extent that such aggregate principal amount of ARCs to be sold differs from such aggregate principal amount of ARCs to be purchased, determine to which other Broker-Dealer or Broker-Dealers acting for one or more purchasers such Broker-Dealer shall deliver, or from which other Broker-Dealer or Broker-Dealers acting for one or more sellers such Broker-Dealer shall receive, as the case may be, ARCs.

(f) The Broker-Dealer Agreement shall provide that a Broker-Dealer may submit an order in Auctions for its own account. A Broker-Dealer may also bid in an Auction in order to prevent what would otherwise be (a) a failed Auction or (b) the implementation of a BMA Auction Spread Rate that the Broker-Dealer believes, in its sole judgment, does not reflect the market for such securities at the time of the Auction. A Broker-Dealer may encourage bidding by others to prevent a failed Auction or a BMA Auction Spread Rate it believes is not a market rate. In the Broker-Dealer Agreement, the Broker-Dealer shall agree to handle customer orders in accordance with its duties under applicable securities laws and rules.

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APPENDIX G

SETTLEMENT PROCEDURES FOR THE TAX-EXEMPT ARCS

Capitalized terms used in this Appendix G shall have the respective meanings specified in Appendix B or Appendix F of this Official Statement.

(a) Not later than 3:00 p.m. on each Auction Date, the Auction Agent is required to notify by telephone the Broker-Dealers that participated in the Auction held on such Auction Date and submitted an Order on behalf of any Existing Owner or Potential Owner of:

(i) the Auction Rate fixed for the next Interest Period and the BMA Auction Spread Rate, if applicable;

(ii) whether there were Sufficient Clearing Bids in such Auction;

(iii) if such Broker-Dealer (a "Seller's Broker-Dealer") submitted a Bid or a Sell Order on behalf of an Existing Owner, whether such Bid or Sell Order was accepted or rejected, in whole or in part, and the principal amount of ARCs, if any, to be sold by such Existing Owner;

(iv) if such Broker-Dealer (a "Buyer's Broker-Dealer") submitted a Bid on behalf of a Potential Owner, whether such Bid was accepted or rejected, in whole or in part, and the principal amount of ARCs, if any, to be purchased by such Potential Owner;

(v) if the aggregate principal amount of ARCs to be sold by all Existing Owners on whose behalf such Broker-Dealer submitted Bids or Sell Orders exceeds the aggregate principal amount of ARCs to be purchased by all Potential Owners on whose behalf such Broker-Dealer submitted a Bid, the name or names of one or more other Buyer's Broker-Dealers (and the Participant, if any, of each such other Buyer's Broker-Dealer) acting for one or more purchasers of such excess principal amount of ARCs and the principal amount of ARCs to be purchased from one or more Existing Owners on whose behalf such Broker-Dealer acted by one or more Potential Owners on whose behalf each of such other Buyer's Broker-Dealers acted;

(vi) if the principal amount of ARCs to be purchased by all Potential Owners on whose behalf such Broker-Dealer submitted a Bid exceeds the amount of ARCs to be sold by all Existing Owners on whose behalf such Broker-Dealer submitted a Bid or a Sell Order, the name or names of one or more Seller's Broker-Dealers (and the Participant, if any, of each such Seller's Broker-Dealer) acting for one or more sellers of such excess principal amount of ARCs and the principal amount of ARCs to be sold to one or more Potential Owners on whose behalf such Broker-Dealer acted by one or more Existing Owners on whose behalf each of such Seller's Broker-Dealers acted;

(vii) unless previously provided, a list of all Applicable ARCs Rates and related Interest Periods (or portions thereof) since the last Interest Payment Date; and

(viii) the Auction Date for the next succeeding Auction.

(b) On each Auction Date, each Broker-Dealer that submitted an Order on behalf of any Existing Owner or Potential Owner shall:

(i) advise each Existing Owner and Potential Owner on whose behalf such Broker Dealer submitted a Bid or Sell Order in the Auction on such Auction Date whether such Bid or Sell Order was accepted or rejected, in whole or in part;

(ii) instruct each Potential Owner on whose behalf such Broker-Dealer submitted a Bid that was accepted, in whole or in part, to instruct such Bidder's Participant to pay to such Broker Dealer (or its Participant) through DTC the amount necessary to purchase the principal amount of ARCs to be purchased pursuant to such Bid against receipt of such principal amount of ARCs;

(iii) in the case of a Broker-Dealer that is a Seller's Broker-Dealer, instruct each Existing Owner on whose behalf such Broker-Dealer submitted a Sell Order that was accepted, in whole or in part, or a Bid that was accepted, in whole or in part, to instruct such Existing Owner's Participant to deliver to such Broker-Dealer (or its Participant) through DTC the principal amount of ARCs to be sold pursuant to such Bid or Sell Order against payment therefor;

(iv) advise each Existing Owner on whose behalf such Broker-Dealer submitted an Order and each Potential Owner on whose behalf such Broker-Dealer submitted a Bid of the Auction Rate for the next Interest Period and the BMA Auction Spread Rate, if applicable;

(v) advise each Existing Owner on whose behalf such Broker-Dealer submitted an Order of the next Auction Date; and

(vi) advise each Potential Owner on whose behalf such Broker-Dealer submitted a Bid that was accepted, in whole or in part, of the next Auction Date.

(c) On the basis of the information provided to it pursuant to paragraph (a) above, each Broker-Dealer that submitted a Bid or Sell Order in an Auction is required to allocate any funds received by it pursuant to paragraph (b)(ii) above, and any ARCs received by it pursuant to paragraph (b)(iii) above, among the Potential Owners, if any, on whose behalf such Broker-Dealer submitted Bids, the Existing Owners, if any, on whose behalf such Broker-Dealer submitted Bids or Sell Orders in such Auction, and any Broker-Dealers identified to it by the Auction Agent following such Auction pursuant to paragraph (a)(v) or (a)(vi) above.

(d) On each Auction Date:

(i) each Potential Owner and Existing Owner with an Order in the Auction on such Auction Date shall instruct its Participant as provided in (b)(ii) or (b)(iii) above, as the case may be;

(ii) each Seller's Broker-Dealer that is not a Participant in DTC shall instruct its Participant to (A) pay through DTC to the Participant of the Existing Owner delivering ARCs to such Broker-Dealer following such Auction pursuant to (b)(iii) above the amount necessary, including accrued interest, if any, to purchase such ARCs against receipt of such ARCs, and (B) deliver such ARCs through DTC to a Buyer's Broker-Dealer (or its Participant) identified to such Seller's Broker-Dealer pursuant to (a)(v) above against payment therefor; and

(iii) each Buyer's Broker-Dealer that is not a Participant in DTC shall instruct its Participant to (A) pay through DTC to a Seller's Broker-Dealer (or its Participant) identified following such Auction pursuant to (a)(vi) above the amount necessary, including accrued interest, if any, to purchase the ARCs to be purchased pursuant to (b)(ii) above against receipt of such ARCs, and (B) deliver such ARCs through DTC to the Participant of the purchaser thereof against payment therefor.

(e) On the first Business Day of the Interest Period next succeeding each Auction Date:

(i) each Participant for a Bidder in the Auction on such Auction Date referred to in (d)(i) above shall instruct DTC to execute the transactions described under (b)(ii) or (b)(iii) above for such Auction, and DTC shall execute such transactions;

(ii) each Seller's Broker-Dealer or its Participant shall instruct DTC to execute the transactions described in (d)(ii) above for such Auction, and DTC shall execute such transactions; and

(iii) each Buyer's Broker-Dealer or its Participant shall instruct DTC to execute the transactions described in (d)(iii) above for such Auction, and DTC shall execute such transactions.

(f) If an Existing Owner selling ARCs in an Auction fails to deliver such ARCs (by authorized book-entry), a Broker-Dealer may deliver to the Potential Owner on behalf of which it submitted a Bid that was accepted a principal amount of ARCs that is less than the principal amount of ARCs that otherwise was to be purchased by such Potential Owner (but only in Authorized Denominations). In such event, the principal amount of ARCs to be so delivered shall be determined solely by such Broker-Dealer (but only in Authorized Denominations). Delivery of such lesser principal amount of ARCs shall constitute good delivery. Notwithstanding the foregoing terms of this paragraph (f), any delivery or nondelivery of ARCs which shall represent any departure from the results of an Auction, as determined by the Auction Agent, shall be of no effect unless and until the Auction Agent shall have been notified of such delivery or nondelivery in accordance with the provisions of the Auction Agency Agreement and the Broker-Dealer Agreement.

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AUCTION PROCEDURES FOR THE TAXABLE ARCS

The Auction Procedures for the Taxable ARCs are as set forth below. All of the terms used in this Appendix H are defined herein or in other parts of this Official Statement. *"ARCs" or "Taxable ARCs" means the Series 2006A-2 Bonds and each series of the 2006 Additional Bonds.*

Definitions

"All-Hold Rate" on any date of determination, shall mean the Applicable LIBOR-Based Rate less 0.25%, provided that in no event shall the applicable All-Hold Rate be greater than the applicable Maximum Rate.

"Applicable ARCs Rate" shall mean the interest rate on the ARCs for any period after the Initial Interest Period.

"Applicable LIBOR-Based Rate" shall mean (a) for an Auction Period of 35 days or less, One-Month LIBOR, (b) for an Auction Period of more than 35 days but less than 115 days, Three-Month LIBOR, (c) for an Auction Period of more than 114 days but less than 195 days, Six-Month LIBOR, and (d) for an Auction Period of more than 194 days, One-Year LIBOR.

"Applicable Number of Business Days" shall mean the greater of two Business Days or one Business Day plus the number of Business Days by which the Auction Date precedes the first day of the next succeeding Interest Period.

"Auction" shall mean each periodic implementation of the Auction Procedures, as described herein.

"Auction Agency Agreement" shall mean the Auction Agency Agreement dated as of August 1, 2006, between the Trustee and the Auction Agent, relating to the Taxable ARCs, and any similar agreement with a successor Auction Agent, in each case as from time to time amended or supplemented.

"Auction Agent" means any person appointed as such with respect to the Taxable ARCs pursuant to the Indenture.

"Auction Date" shall mean the Business Day immediately preceding the first day of each respective Interest Period, other than:

- (a) each Interest Period commencing after the ownership of the ARCs of such series is no longer maintained in book-entry form by the Depository;
- (b) each Interest Period commencing after the occurrence and during the continuance of a Payment Default, or
- (c) any Interest Period commencing less than the Applicable Number of Business Days after the cure or waiver of a Payment Default.

Notwithstanding the foregoing, the Auction Date for one or more Auction Periods may be changed pursuant to the Indenture.

"Auction Period" shall mean the Interest Period applicable to the ARCs which initially shall consist generally of 28 days, as the same may be changed pursuant to the Indenture.

"Authorized Denominations" shall mean \$25,000 and any multiples thereof.

"Broker-Dealer" shall mean UBS Securities LLC or any other broker or dealer (each as defined in the Securities Exchange Act), commercial bank or other entity permitted by law to perform the functions required of a Broker-Dealer set forth in the Auction Procedures that (a) is a Participant (or an affiliate of a Participant) which has a capital surplus of at least \$50 million, (b) has been selected by the Corporation with the approval of the Market Agent (which approval shall not be unreasonably withheld), and (c) has entered into a Broker-Dealer Agreement that remains effective.

"Broker-Dealer Agreement" shall mean the Broker-Dealer Agreement dated as of August 1, 2006 between the Auction Agent and the Broker-Dealer, relating to the Taxable ARCs, and each other agreement between the Auction Agent and a Broker-Dealer pursuant to which the Broker-Dealer agrees to participate in Auctions as set forth in the Auction Procedures, as from time to time amended or supplemented.

"Business Day" shall mean any day other than a Saturday, Sunday, holiday or day on which banks located in the City of New York, New York, or the New York Stock Exchange, the Trustee or the Auction Agent, are authorized or permitted by law or executive order to close or such other dates as may be agreed to in writing by the Market Agent, the Auction Agent, the Broker-Dealer and the Corporation.

"Carry-over Amount" shall mean the excess, if any, of (a) the amount of interest on a Taxable ARC that would have accrued with respect to the related Auction Period at the lesser of the Auction Rate or the Maximum Interest Rate over (b) the amount of interest on such Taxable ARC actually accrued with respect to such Taxable ARC, with respect to such Auction Period based on the Maximum Rate, together with the unpaid portion of any such excess from prior Auction Periods; provided that any reference to "principal" or "interest" in the Indenture and in the Taxable ARCs shall not include within the meanings of such words any Carry-over Amount or any interest accrued on any Carry-over Amount except where accrued interest is expressly referred to.

"CP Rate" shall mean, for each month, the rate as will be in effect on the second Business Day preceding the 25th day of such month (such date, the "Reset Date") that is the bond equivalent yield of the rate set forth in H.15(519) for that Reset Date opposite the 90 day maturity and under the caption "Commercial Paper-Financial." If, by 5:00 p.m., New York City time, on the Business Day immediately following the Reset Date, such rate for the Reset Date is not yet published in H.15(519), the CP Rate for such month will be the bond equivalent yield of the rate for the first preceding day for which such rate is set forth in H.15(519) opposite the 90 day maturity and under the caption "Commercial Paper-Financial."

"Existing Owner" shall mean (a) with respect to and for the purpose of dealing with the Auction Agent in connection with an Auction, a Person who is a Broker-Dealer listed in the existing owner registry at the close of business on the Business Day immediately preceding the Auction Date for such Auction and (b) with respect to and for the purpose of dealing with the Broker-Dealer in connection with an Auction a Person who is a beneficial owner of ARCs.

"Initial Interest Period" shall mean (a) with respect to the Series 2006A-2 Bonds, the period from the date of issuance of the Series 2006A-2 Bonds and ending on and including September 13, 2006 and (b) with respect to each series of the 2006 Additional Bonds, the period from the respective date of issuance of each series of the 2006 Additional Bonds and ending on and including the date set forth in the Corporation Issuance Order related to such series of the 2006 Additional Bonds.

"Interest Payment Date" shall mean the Business Day following the last day of each Interest Period, except as changed as provided herein, provided, however, that if the duration of the Interest Period is one year or longer, then the Interest Payment Date therefor shall be each June 1 and December 1 (or if any such date is not a Business Day, then the next succeeding Business Day) during such Interest Period and the Business Day following the last day of such Interest Period; and shall also mean the maturity date of the Bonds, or if such maturity date is not a Business Day, the next succeeding Business Day (but only for interest accrued through the last day of the Interest Period next preceding such Interest Payment Date).

"Interest Period" shall mean (a) unless otherwise changed as described herein, with respect to the Taxable ARCs, the Initial Interest Period, and each successive period of generally 28 days thereafter, respectively, commencing in the case of the Series 2006A-2 Bonds and the Series 2006A-3 Bonds on a Thursday (or the Business

Day following the last day of the prior Interest Period, if the prior Interest Period does not end on a Wednesday) and ending on (and including) a Wednesday (unless such Wednesday is not followed by a Business Day, in which case on the next succeeding day that is followed by a Business Day), and in the case of each series of the 2006 Additional Bonds, as set forth in the Corporation Issuance Order related to such series of the 2006 Additional Bonds, and (b) if the Auction Periods are changed as provided herein, each period commencing on an Interest Payment Date and ending on but excluding the next succeeding Interest Payment Date.

"LIBOR Determination Date" shall mean the Auction Date, or if no Auction Date is applicable, the Business Day immediately preceding the first day of each Interest Period.

"Market Agent Agreement" shall mean the Market Agent Agreement dated as of August 1, 2006, between the Trustee and the Market Agent, relating to the Taxable ARCs, and any similar agreement with a successor Market Agent, in each case as from time to time amended or supplemented.

"Maximum Auction Rate" shall mean, for any Auction, a per annum interest rate on the ARCs which, when taken together with the interest rate on the ARCs for the one-year period ending on the final day of the proposed Auction Period, would result in the average interest rate on the ARCs for such period either (a) not being in excess (on a per annum basis) of the average of the Ninety-One Day United States Treasury Bill Rate plus 1.20% for such one-year period (if all of the ratings assigned by the Rating Agencies to the ARCs are "Aa3" or "AA-" or better), (b) not being in excess (on a per annum basis) of the Ninety-One Day United States Treasury Bill Rate plus 1.50% for such one-year period (if any one of the ratings assigned by the Rating Agencies to the ARCs is less than "Aa3" or "AA-" but both are at least any category of "A"), or (c), not being in excess (on a per annum basis) of the average of the Ninety-One Day United States Treasury Bill Rate plus 1.75% for such one-year period (if any one of the ratings assigned by the Rating Agencies to the ARCs is less than the lowest category of "A"); provided, however, that if the ARCs have not been outstanding for at least such one-year period then for any portion of such period during which such ARCs were not outstanding, the interest rate on the ARCs for purposes of this definition, shall be deemed to be equal to such rates as the Market Agent shall determine were the rates of interest on equivalently rated auction securities with comparable lengths of auction periods during such period; provided further, however, that for any Auction with respect to the Taxable ARCs rated "A" or better, the Maximum Auction Rate shall not exceed the Applicable LIBOR-Based Rate plus 1.50%; and provided further, however, that this definition may be modified at the direction of the Corporation upon receipt by the Trustee of (a) written consent of the Market Agent and (b) written consent from each Rating Agency rating the ARCs that such change will not in and of itself result in reduction of the rating on any ARCs.

For purposes of the Auction Agent and the Auction Procedures, the ratings referred to in this definition shall be the last ratings of which the Auction Agent has been given notice pursuant to the Auction Agency Agreement. The percentage amount to be added to the Ninety-One Day United States Treasury Bill Rate in any one or more of clauses (a), (b) or (c) above may be increased by delivery to the Auction Agent and the Trustee of a certificate signed by an Authorized Officer of the Corporation directing such increase, together with a Rating Confirmation.

"Maximum Interest Rate" shall mean the lesser of (a) 18% per annum or such higher rate as may be permitted with a Rating Confirmation or (b) the maximum rate of interest permitted by the laws of the Commonwealth of Kentucky.

"Maximum Rate," on any date of determination, shall mean the interest rate per annum equal to the lesser of: (a) the Maximum Auction Rate; (b) the Maximum Interest Rate; and (c) during the occurrence of a Net Loan Rate Restriction Period, the Net Loan Rate, in each case rounded to the nearest one-thousandth (.001) of 1%.

"Net Loan Rate" shall mean, with respect to any Auction Period, the rate of interest per annum (rounded to the next highest 0.01%) equal to the amount determined by the Corporation by dividing (a) the product of 12 times the sum of the following amounts accrued during the most recent calendar month that ended at least 25 days before the start of such Auction Period (except for (i) below, whether or not actually received or paid): (i) interest (including Interest Subsidy Payments), assumed Special Allowance Payments and late fees collected with respect to the Loans, after giving effect to borrower incentives and similar programs, plus (ii) investment earnings on amounts in the Funds, plus (iii) any Swap Receipts and Termination Receipts minus (iv) any rebate fees due to the

Department with respect to Loans that are Consolidation Loans, minus (v) any Swap Payments, minus (vi) the interest accrued on all Outstanding Bonds other than those that bear interest based upon an auction mode, minus (vii) the Program Expenses; by (b) the aggregate principal balance of all Bonds bearing interest based upon an auction mode that are Outstanding on the date of such calculation. For this purpose, the Special Allowance Payment shall be computed based upon the bond equivalent yield of 91-Day United States Treasury Bills most recently auctioned, or the CP Rate, as applicable (whether or not the actual Special Allowance Payment rate could then be determined); and, provided further, however, that this definition may be modified at the direction of the Corporation upon receipt by the Trustee of (i) written consent of the Market Agent and (ii) a Rating Affirmation.

"Net Loan Rate Restriction Period" shall mean, with respect to any of the ARCs, the period of time from and including a Net Loan Rate Trigger Date to but excluding a Net Loan Rate Termination Date.

"Net Loan Rate Termination Date" shall mean, for each ARC for which the Net Loan Rate Trigger Date has occurred, the 25th day of a month which immediately follows two consecutive months for which both (a) the daily weighted average of the Auction Rate for each Series of ARCs in effect during the month for which the calculation is being made was equal to or less than a per annum rate equal to the sum of (i) the bond equivalent yield of 91-Day United States Treasury Bills sold at the last auction prior to the 25th day of the month for which such calculation is being made plus (ii) 1.0% and (b) the most recently available Three-Month LIBOR as of the Reset Date for the CP Rate in the month for which such calculation is being made is less than the sum of (i) the CP Rate for the month for which such calculation is being made plus (ii) 0.25%.

"Net Loan Rate Trigger Date" shall mean, for each Series of ARCs, the 25th day of a month which immediately follows three consecutive months for which either (a) the daily weighted average of the Auction Rates for each Series of ARCs bearing interest based upon an auction mode in effect during the month for which such calculation is being made exceeded a per annum rate equal to the sum of (i) the bond equivalent yield of the 91-Day United States Treasury Bills sold at the last auction prior to the 25th day of the month for which such calculation is being made plus (ii) 1.0%; or (b) the most recently available Three-Month LIBOR as of the Reset Date for the CP Rate in the month for which calculation is being made is equal to or greater than the sum of (i) the CP Rate for the applicable month plus (ii) 0.25%.

"Ninety-One Day United States Treasury Bill Rate" shall mean the bond equivalent yield on the 91-day United States Treasury Bills sold at the last auction thereof that immediately precedes the Auction Date, as determined by the Market Agent on the Auction Date.

"Non-Payment Rate," on any date of determination shall mean the interest rate per annum equal to the lesser of (a) the sum of One-Month LIBOR plus 1.50% and (b) the Maximum Interest Rate, rounded to the nearest one-thousandth (.001) of 1%.

"One-Month LIBOR" "Three-Month LIBOR," "Six-Month LIBOR" or "One-Year LIBOR" means the offered rate, as determined by the Auction Agent or the Trustee, as applicable, of the Applicable LIBOR Based Rate for United States dollar deposits which appears on Telerate Page 3750, as reported by Bloomberg Financial Markets Commodities News (or such other page as may replace Telerate Page 3750 for the purpose of displaying comparable rates) as of approximately 11:00 a.m. London time, on the LIBOR Determination Date; provided, that if on any calculation date, no rate appears on Telerate Page 3750 as specified above, the Auction Agent or the Trustee, as applicable, shall determine the arithmetic mean of the offered quotations for four major banks in the London interbank market, for deposits in U.S. dollars for the respective period specified above for the banks in the London interbank market as of approximately 11:00 a.m., London time, on such calculation date and in a principal amount of not less than \$1,000,000 that is representative of a single transaction in such market and at such time, unless fewer than two such quotations are provided, in which case, the Applicable LIBOR Based Rate shall be the arithmetic mean of the offered quotations that leading banks in New York City selected by the Auction Agent or the Trustee, as applicable, are quoting on the relevant LIBOR Determination Date for loans in U.S. dollars to leading European banks in a principal amount of not less than \$1,000,000 that is representative of a single transaction in such market at such time. All percentages resulting from such calculations shall be rounded upwards, if necessary, to the nearest one hundredth of one percent.

"Owner" shall mean the beneficial owner of any ARCs.

"Payment Default" shall mean failure to make payment of interest on, premium, if any, and principal of the ARCs when due, by the Corporation.

"Potential Owner" shall mean any Person (including any Existing Owner that is (a) a Broker-Dealer when dealing with an Auction Agent and (b) a potential beneficial owner when dealing with a Broker-Dealer) who may be interested in acquiring ARCs (or, in the case of an Existing Owner thereof, an additional principal amount of ARCs).

"Record Date" shall mean, with respect to the ARCs, one Business Day prior to each Interest Payment Date.

"Redemption Date," when used with respect to any ARCs to be redeemed, shall mean the date fixed for such redemption.

"Securities Exchange Act" shall mean the Securities Exchange Act of 1934, as amended.

"Submission Deadline" shall mean 1:00 p.m. on any Auction Date or such other time on any Auction Date by which Broker-Dealers are required to submit Orders to the Auction Agent, as specified by the Auction Agent from time to time.

"Submission Processing Deadline" means the earlier of (a) 40 minutes after the Submission Deadline, and (b) the time when the Auction Agent begins to disseminate the results of the Auction to the Broker Dealers.

"Submission Processing Representation" has the meaning specified in Section (b)(xi) below.

"Winning Bid Rate" shall have the meaning set forth in the Indenture.

Introduction

Auctions shall be conducted on each Auction Date (other than the Auction Date immediately preceding (a) each Interest Period commencing after the ownership of the ARCs is no longer maintained in book-entry form by a Securities Depository; (b) each Interest Period commencing after the occurrence and during the continuance of a Payment Default; or (c) any Interest Period commencing less than two Business Days after the cure of a Payment Default). If there is an Auction Agent on such Auction Date, Auctions shall be conducted in the following manner (such procedures apply separately to each series of the ARCs):

(a) *Submission by Existing Owners and Potential Owners.*

(i) Prior to the Submission Deadline on each Auction Date:

(A) each Existing Owner of ARCs may submit to a Broker-Dealer information as to: (1) the principal amount of Outstanding ARCs, if any, held by such Existing Owner which such Existing Owner desires to continue to hold without regard to the Auction Rate for the next succeeding Interest Period; (2) the principal amount of Outstanding ARCs, if any, which such Existing Owner offers to sell if the Auction Rate for the next succeeding Interest Period shall be less than the rate per annum specified by such Existing Owner; and/or (3) the principal amount of Outstanding ARCs, if any, held by such Existing Owner which such Existing Owner offers to sell without regard to the Auction Rate for the next succeeding Interest Period; and

(B) one or more Broker-Dealers may contact Potential Owners to determine the principal amount of ARCs which each such Potential Owner offers to purchase if the Auction Rate for the next succeeding Interest Period shall not be less than the rate per annum specified by such Potential Owner.

The communication to a Broker-Dealer of information referred to in clause (A)(1), (A)(2), (A)(3) or (B) of this subsection (a)(i) is hereinafter referred to as an "Order" and collectively as "Orders." Each Existing Owner and each Potential Owner placing an Order is hereinafter referred to as a "Bidder" and collectively as "Bidders." An Order containing the information referred to in clause (A)(1) of this subsection (a)(i) is hereinafter referred to as a "Hold Order" and collectively as "Hold Orders." An Order containing the information referred to in clause (A)(2) or (B) of this subsection (a)(i) is hereinafter referred to as a "Bid" and collectively as "Bids." An order containing the information referred to in clause (A)(3) of this subsection (a)(i) is hereinafter referred to as "Sell Order" and collectively as "Sell Orders."

(ii) (A) Subject to the provisions of subsection (b) below, a Bid by an Existing Owner shall constitute an irrevocable offer to sell: (1) the principal amount of Outstanding ARCs specified in such Bid if the Auction Rate determined shall be less than the rate specified in such Bid; or (2) such principal amount or a lesser principal amount of Outstanding ARCs to be determined as set forth in clause (D) of paragraph (i) of subsection (d) below, if the Auction Rate determined shall be equal to the rate specified in such Bid; or (3) such principal amount or a lesser principal amount of Outstanding ARCs to be determined as set forth in clause (C) of paragraph (ii) of subsection (d) below if the rate specified shall be higher than the Maximum Rate and Sufficient Clearing Bids have not been made.

(B) Subject to the provisions of subsection (b) below, a Sell Order by an Existing Owner shall constitute an irrevocable offer to sell: (1) the principal amount of Outstanding ARCs specified in such Sell Order; or (2) such principal amount or a lesser principal amount of Outstanding ARCs as set forth in clause (C) of paragraph (ii) of subsection (d) below if Sufficient Clearing Bids have not been made.

(C) Subject to the provisions of subsection (b) below, a Bid by a Potential Owner shall constitute an irrevocable offer to purchase: (1) the principal amount of Outstanding ARCs specified in such Bid if the Auction Rate determined shall be higher than the rate specified in such Bid; or (2) such principal amount or a lesser principal amount of Outstanding ARCs as set forth in clause (E) of paragraph (i) of subsection (d) below if the Auction Rate determined shall be equal to the rate specified in such Bid.

(b) *Submission by Broker-Dealer to Auction Agent.*

(i) Each Broker-Dealer shall submit in writing to the Auction Agent prior to the Submission Deadline (subject to clause (xi) below) on each Auction Date all Orders obtained by such Broker-Dealer and shall specify with respect to each such Order:

(A) the name of the Bidder placing such Order,

(B) the aggregate principal amount of ARCs that are the subject of such Order,

(C) to the extent that such Bidder is an Existing Owner: (1) the principal amount of ARCs, if any, subject to any Hold Order placed by such Existing Owner; (2) the principal amount of ARCs, if any, subject to any Bid placed by such Existing Owner and the rate specified in such Bid; and (3) the principal amount of ARCs, if any, subject to any Sell Order placed by such Existing Owner; and

(D) to the extent such Bidder is a Potential Owner, the rate and amount specified in such Potential Owner's Bid.

(ii) If any rate specified in any Bid contains more than three figures to the right of the decimal point, the Auction Agent shall round such rate up to the next highest one-thousandth (.001) of 1%.

(iii) If an Order or Orders covering all Outstanding ARCs held by any Existing Owner is not submitted to the Auction Agent prior to the Submission Processing Deadline, the Auction Agent shall deem a Hold Order to have been submitted on behalf of such Existing Owner covering the principal amount of Outstanding ARCs held by such Existing Owner and not subject to an Order submitted to the Auction Agent.

(iv) None of the Corporation, the Trustee nor the Auction Agent shall be responsible for any failure of a Broker-Dealer to submit an Order to the Auction Agent on behalf of any Existing Owner or Potential Owner.

(v) If any Existing Owner submits through a Broker-Dealer to the Auction Agent one or more Orders covering in the aggregate more than the principal amount of Outstanding ARCs held by such Existing Owner, such Orders shall be considered valid as follows and in the following order of priority:

(A) all Hold Orders shall be considered valid, but only up to and including in the aggregate the principal amount of ARCs held by such Existing Owner, and if the aggregate principal amount of ARCs subject to such Hold Orders exceeds the aggregate principal amount of ARCs held by such Existing Owner, the aggregate principal amount of ARCs subject to each such Hold Order shall be reduced pro rata to cover the aggregate principal amount of Outstanding ARCs held by such Existing Owner.

(B) (1) any Bid shall be considered valid up to and including the excess of the principal amount of Outstanding ARCs held by such Existing Owner over the aggregate principal amount of ARCs subject to any Hold Orders referred to in clause (A) of this paragraph (v); (2) subject to subclause (1) of this clause (B), if more than one Bid with the same rate is submitted on behalf of such Existing Owner and the aggregate principal amount of Outstanding ARCs subject to such Bids is greater than such excess, such Bids shall be considered valid up to and including the amount of such excess and the stated amount of ARCs subject to each Bid with the same rate shall be redeemed pro rata to cover the stated amount of ARCs equal to such excess; (3) subject to subclauses (1) and (2) of this clause (B), if more than one Bid with different rates is submitted on behalf of such Existing Owner, such Bids shall be considered valid first in the ascending order of their respective rates until the highest rate is reached at which such excess exists and then at such rate up to and including the amount of such excess; and (4) in any such event, the aggregate principal amount of Outstanding ARCs, if any, subject to Bids not valid under this clause (B) shall be treated as the subject of a Bid by a Potential Owner at the rate therein specified; and

(C) all Sell Orders shall be considered valid up to and including the excess of the principal amount of Outstanding ARCs held by such Existing Owner over the aggregate principal amount of ARCs subject to valid Hold Orders referred to in clause (A) of this paragraph (v) and valid Bids referred to in clause (B) of this paragraph (v).

(vi) If more than one Bid for ARCs is submitted on behalf of any Potential Owner, each Bid submitted shall be a separate Bid with the rate and principal amount therein specified.

(vii) Any Bid or Sell Order submitted by an Existing Owner covering an aggregate principal amount of ARCs not equal to an Authorized Denomination shall be rejected and shall be deemed a Hold Order. Any Bid submitted by a Potential Owner covering an aggregate principal amount of ARCs not equal to an Authorized Denomination or any multiple thereof shall be rejected.

(viii) Any Bid submitted by an Existing Owner or a Potential Owner specifying a rate lower than the All-Hold Rate shall be treated as a Bid specifying the All-Hold Rate and any such Bid shall be considered as valid and shall be selected in the ascending order of the respective rates in the Submitted Bids.

(ix) An Existing Owner that offers to purchase additional ARCs is, for purposes of such offer, treated as a Potential Owner.

(x) Any Bid specifying a rate higher than the Maximum Interest Rate will: (A) be treated as a Sell Order if submitted by an Existing Owner; and (B) not be accepted if submitted by a Potential Owner.

(xi) Notwithstanding the above provisions, a Broker-Dealer may submit an Order after the Submission Deadline and prior to the Submission Processing Deadline if the Order was (A) received by the Broker-Dealer from Existing Owners or Potential Owners prior to the Submission Deadline or (B) initiated internally by the Broker-Dealer for its own account prior to the Submission Deadline. Each Order submitted to the Auction Agent after the Submission Deadline and prior to the Submission Processing Deadline shall constitute a representation by the Broker-Dealer that such Order was (1) received from an Existing Owner or Potential Owner prior to the Submission Deadline or (2) initiated internally by the Broker-Dealer for its own account prior to the Submission Deadline (the "Submission Processing Representation").

(c) *Determination of Sufficient Clearing Bids, Auction Rate and Winning Bid Rate.*

(i) Not earlier than the Submission Deadline on each Auction Date, the Auction Agent shall assemble all valid Orders submitted or deemed submitted to it by the Broker-Dealers (each such Order as submitted or deemed submitted by a Broker-Dealer being hereinafter referred to individually as a "Submitted Hold Order," a "Submitted Bid" or a "Submitted Sell Order," as the case may be, or as a "Submitted Order" and collectively as "Submitted Hold Orders," "Submitted Bids" or "Submitted Sell Orders," as the case may be, or as "Submitted Orders") and shall determine:

(A) the excess of the total principal amount of Outstanding ARCs over the sum of the aggregate principal amount of Outstanding ARCs subject to Submitted Hold Orders (such excess being hereinafter referred to as the "Available ARCs"); and

(B) from such Submitted Orders whether (1) the aggregate principal amount of Outstanding ARCs subject to Submitted Bids by Potential Owners specifying one or more rates equal to or lower than the Maximum Interest Rate; exceeds or is equal to the sum of: (2) the aggregate principal amount of Outstanding ARCs subject to Submitted Bids by Existing Owners specifying one or more rates higher than the Maximum Interest Rate; and (3) the aggregate principal amount of Outstanding ARCs subject to Submitted Sell Orders (in the event such excess or such equality exists, other than because the sum of the principal amounts of ARCs in subclauses (1) and (3) above is zero because all of the Outstanding ARCs are subject to Submitted Hold Orders, such Submitted Bids in subclause (1) above being hereinafter referred to collectively as "Sufficient Clearing Bids"); and

(C) if Sufficient Clearing Bids have been made, the lowest rate specified in such Submitted Bids (which shall be the "Winning Bid Rate") such that if: (1)(a) each such Submitted Bid from Existing Owners specifying such lowest rate and (b) all other Submitted Bids from Existing Owners specifying lower rates were rejected, thus entitling such Existing Owners to continue to hold the principal amount of ARCs subject to such Submitted Bids; and (2)(a) each such Submitted Bid from Potential Owners specifying such lowest rate and (b) all other Submitted Bids from Potential Owners specifying lower rates were accepted, the result would be that such Existing Owners described in subclause (1) above would continue to hold an aggregate principal amount of Outstanding ARCs which, when added to the aggregate principal amount of Outstanding ARCs to be purchased by such Potential Owners described in subclause (2) above, would equal not less than the Available ARCs.

(ii) Promptly after the Auction Agent has made the determinations pursuant to paragraph (i) of this subsection (c), the Auction Agent shall advise the Trustee of the Maximum Rate, the Maximum Auction Rate, the Maximum Interest Rate, the All-Hold Rate, One-Month LIBOR, and the Applicable LIBOR-Based Rate and the components thereof on the Auction Date and, based on such determinations, the Auction Rate for the next succeeding Interest Period (the "Auction Rate") as follows:

(A) if Sufficient Clearing Bids have been made, that the Auction Rate for the next succeeding Interest Period shall be equal to the Winning Bid Rate so determined;

(B) if Sufficient Clearing Bids have not been made (other than because all of the Outstanding ARCs are subject to Submitted Hold Orders), that the Auction Rate for the next succeeding Interest Period shall be equal to the Maximum Rate; or

(C) if all Outstanding ARCs are subject to Submitted Hold Orders, that the Auction Rate for the next succeeding Interest Period shall be equal to the All-Hold Rate.

If the Auction Rate determined as set forth above exceeds the Maximum Rate, the Applicable ARCs Rate for such Interest Period shall be equal to the Maximum Rate, and the excess of the amount of interest on the ARCs that would have accrued at the rate equal to the Auction Rate over the amount of interest on such ARCs actually accrued at the Maximum Rate will accrue as the Carry-over Amount. The Carry-over Amount will bear interest at a rate equal to One-Month LIBOR from the Interest Payment Date for the Interest Period for which the Carry-over Amount was calculated until paid or until extinguished in accordance with the Indenture.

(d) *Acceptance and Rejection of Submitted Bids and Submitted Sell Orders and Allocation of ARCs.* Existing Owners shall continue to hold the principal amount of ARCs that are subject to Submitted Hold Orders, and based on the determinations made pursuant to (i) of subsection (c), Submitted Bids and Submitted Sell Orders shall be accepted or rejected and the Auction Agent shall take such other action as set forth below:

(i) if Sufficient Clearing Bids have been made, all Submitted Sell Orders shall be accepted and, subject to the provisions of paragraph (iv) of this subsection (d), Submitted Bids shall be accepted or rejected as follows in the following order of priority and all other Submitted Bids shall be rejected:

(A) Existing Owners' Submitted Bids specifying any rate that is higher than the Winning Bid Rate shall be accepted, thus requiring each such Existing Owner to sell the aggregate principal amount of ARCs subject to such Submitted Bids;

(B) Existing Owners' Submitted Bids specifying any rate that is lower than the Winning Bid Rate shall be rejected, thus entitling each such Existing Owner to continue to hold the aggregate principal amount of ARCs subject to such Submitted Bids;

(C) Potential Owners' Submitted Bids specifying any rate that is lower than the Winning Bid Rate shall be accepted, thus requiring such Potential Owner to purchase the aggregate principal amount of ARCs subject to such Submitted Bids;

(D) each Existing Owner's Submitted Bid specifying a rate that is equal to the Winning Bid Rate shall be rejected, thus entitling such Existing Owner to continue to hold the aggregate principal amount of ARCs subject to such Submitted Bid, unless the aggregate principal amount of Outstanding ARCs subject to all such Submitted Bids shall be greater than the principal amount of ARCs (the "remaining principal amount") equal to the excess of the Available ARCs over the aggregate principal amount of ARCs subject to Submitted Bids described in clauses (B) and (C) of this paragraph (i), in which event such Submitted Bid of such Existing Owner shall be rejected in part, and such Existing Owner shall be entitled to continue to hold the principal amount of ARCs subject to such Submitted Bid, but only in an amount equal to the aggregate principal amount of ARCs obtained by multiplying the remaining principal amount by a fraction the numerator of which shall be the principal amount of Outstanding ARCs held by such Existing Owner subject to such Submitted Bid and the denominator of which shall be the sum of the principal amount of Outstanding ARCs subject to such Submitted Bids made by all such Existing Owners that specified a rate equal to the Winning Bid Rate; and

(E) each Potential Owner's Submitted Bid specifying a rate that is equal to the Winning Bid Rate shall be accepted but only in an amount equal to the principal amount of ARCs obtained by multiplying the excess of the aggregate principal amount of Available ARCs over the

aggregate principal amount of ARCs subject to Submitted Bids described in clauses (B), (C) and (D) of this paragraph (i) by a fraction the numerator of which shall be the aggregate principal amount of Outstanding ARCs subject to such Submitted Bid and the denominator of which shall be the sum of the principal amounts of Outstanding ARCs subject to Submitted Bids made by all such Potential Owners that specified a rate equal to the Winning Bid Rate;

(ii) If Sufficient Clearing Bids have not been made (other than because all of the Outstanding ARCs are subject to Submitted Hold Orders), subject to the provisions of paragraph (iv) of this subsection (d), Submitted Orders shall be accepted or rejected as follows in the following order of priority and all other Submitted Bids shall be rejected;

(A) Existing Owners' Submitted Bids specifying any rate that is equal to or lower than the Maximum Rate shall be rejected, thus entitling such Existing Owners to continue, to hold the aggregate principal amount of ARCs subject to such Submitted Bids;

(B) Potential Owners' Submitted Bids specifying any rate that is equal to or lower than the Maximum Rate shall be accepted, thus requiring each Potential Owner to purchase, the aggregate principal amount of ARCs subject to such Submitted Bids; and

(C) each Existing Owner's Submitted Bid specifying any rate that is higher than the Maximum Rate and the Submitted Sell Order of each Existing Owner shall be accepted, thus entitling each Existing Owner that submitted any such Submitted Bid or Submitted Sell Order to sell the ARCs subject to such Submitted Bid or Submitted Sell Order, but in both cases only in an amount equal to the aggregate principal amount of ARCs obtained by multiplying the aggregate principal amount of ARCs subject to Submitted Bids described in clause (B) of this paragraph (ii) by a fraction the numerator of which shall be the aggregate principal amount of Outstanding ARCs held by such Existing Owner subject to such Submitted Bid or Submitted Sell Order and the denominator of which shall be the aggregate principal amount of Outstanding ARCs subject to all such Submitted Bids and Submitted Sell Orders;

(iii) If all Outstanding ARCs are subject to Submitted Hold Orders, all Submitted Bids shall be rejected; and

(iv) If, as a result of the procedures described in paragraph (i) or (ii) of this subsection (d), any Existing Owner would be entitled or required to sell, or any Potential Owner would be entitled or required to purchase, a principal amount of ARCs that is not equal to an Authorized Denomination, the Auction Agent shall, in such manner as it shall, in its sole discretion, determine, round up or down the principal amount of ARCs to be purchased or sold by any Existing Owner or Potential Owner so that the principal amount of ARCs purchased or sold by each Existing Owner or Potential Owner shall be equal to an Authorized Denomination, even if such allocation results in one or more of such Potential Owners not purchasing any ARCs.

(v) If, as a result of the procedures described in paragraph (i) or (ii) of this subsection (d), any Potential Owner would be entitled or required to purchase less than an Authorized Denomination of ARCs, the Auction Agent shall, in such manner as in its sole discretion it shall determine, allocate ARCs for purchase among Potential Owners so that only ARCs in Authorized Denominations are purchased by any Potential Owner, even if such allocation results in one or more of such Potential Owners not purchasing any ARCs.

(e) Based on the results of each Auction, the Auction Agent shall determine the aggregate principal amount of ARCs to be purchased and the aggregate principal amount of ARCs to be sold by Potential Owners and Existing Owners on whose behalf each Broker-Dealer submitted Bids or Sell Orders and, with respect to each Broker-Dealer, to the extent that such aggregate principal amount of ARCs to be sold differs from such aggregate principal amount of ARCs to be purchased, determine to which other Broker-Dealer or Broker-Dealers acting for one or more purchasers such Broker-Dealer shall deliver, or from which other Broker-Dealer or Broker-Dealers acting for one or more sellers such Broker-Dealer shall receive, as the case may be ARCs.

(f) Any calculation by the Auction Agent, the Corporation or the Trustee, as applicable, of the Applicable ARCs Rate, the Applicable LIBOR-Based Rate, the Maximum Auction Rate, the Maximum Interest Rate, the Maximum Rate, the All-Hold Rate and the Non-Payment Rate shall, in the absence of manifest error, be binding on all other parties.

The Broker-Dealer Agreement will provide that a Broker-Dealer may submit an order in Auctions for its own account. A Broker-Dealer may also bid in an Auction in order to prevent what would otherwise be (a) a failed Auction, (b) an "all-hold" Auction, or (c) the implementation of an Auction Rate that the Broker-Dealer believes, in its sole judgment, does not reflect the market for such securities at the time of the Auction. Broker-Dealers may, but are not obligated to, advise holders of ARCs that the Auction Rate that will apply in an "all-hold" Auction is often a lower rate than would apply if holders submit Bids, and such advice, if given, may facilitate the submission of Bids by existing holders that would avoid the occurrence of an "all-hold" Auction. A Broker-Dealer may encourage bidding by others to prevent a failed Auction or an Auction Rate it believes is not a market rate (although it should encourage bidding at a rate to prevent an All Hold Rate). In the Broker-Dealer Agreement, the Broker-Dealer shall agree to handle customer orders in accordance with its duties under applicable securities laws and rules.

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SETTLEMENT PROCEDURES FOR THE TAXABLE ARCS

Capitalized terms used in this Appendix I shall have the respective meanings specified in Appendix B or Appendix H of this Official Statement.

(a) Not later than 3:00 p.m. on each Auction Date, the Auction Agent is required to notify by telephone the Broker-Dealers that participated in the Auction held on such Auction Date and submitted an Order on behalf of any Existing Owner or Potential Owner of:

- (i) the Auction Rate fixed for the next Interest Period;
- (ii) whether there were Sufficient Clearing Bids in such Auction;
- (iii) if such Broker-Dealer (a "Seller's Broker-Dealer") submitted a Bid or a Sell Order on behalf of an Existing Owner, whether such Bid or Sell Order was accepted or rejected, in whole or in part, and the principal amount of ARCs, if any, to be sold by such Existing Owner;
- (iv) if such Broker-Dealer (a "Buyer's Broker-Dealer") submitted a Bid on behalf of a Potential Owner, whether such Bid was accepted or rejected, in whole or in part, and the principal amount of ARCs, if any, to be purchased by such Potential Owner;
- (v) if the aggregate principal amount of ARCs to be sold by all Existing Owners on whose behalf such Broker-Dealer submitted Bids or Sell Orders exceeds the aggregate principal amount of ARCs to be purchased by all Potential Owners on whose behalf such Broker-Dealer submitted a Bid, the name or names of one or more other Buyer's Broker-Dealers (and the Participant, if any, of each such other Buyer's Broker-Dealer) acting for one or more purchasers of such excess principal amount of ARCs and the principal amount of ARCs to be purchased from one or more Existing Owners on whose behalf such Broker-Dealer acted by one or more Potential Owners on whose behalf each of such other Buyer's Broker-Dealers acted;
- (vi) if the principal amount of ARCs to be purchased by all Potential Owners on whose behalf such Broker-Dealer submitted a Bid exceeds the principal amount of ARCs to be sold by all Existing Owners on whose behalf such Broker-Dealer submitted a Bid or a Sell Order, the name or names of one or more Seller's Broker-Dealers (and the Participant, if any, of each such Seller's Broker-Dealer) acting for one or more sellers of such excess principal amount of ARCs and the principal amount of ARCs to be sold to one or more Potential Owners on whose behalf such Broker-Dealer acted by one or more Existing Owners on whose behalf of each of such Seller's Broker-Dealers acted;
- (vii) unless previously provided, a list of all Applicable ARCs Rates and related Interest Periods (or portions thereof) since the last Interest Payment Date; and
- (viii) the Auction Date for the next succeeding Auction.

(b) On each Auction Date, each Broker-Dealer that submitted an Order on behalf of any Existing Owner or Potential Owner shall:

- (i) advise each Existing Owner and Potential Owner on whose behalf such Broker-Dealer submitted a Bid or Sell Order in the Auction on such Auction Date whether such Bid or Sell Order was accepted or rejected, in whole or in part;
- (ii) in the case of a Broker-Dealer that is a Buyer's Broker-Dealer, instruct each Potential Owner on whose behalf such Broker-Dealer submitted a Bid that was accepted, in whole or in part, to instruct such Bidder's Participant to pay to such Broker-Dealer (or its Participant) through the Securities

Depository the amount necessary to purchase the principal amount of ARCs to be purchased pursuant to such Bid against receipt of such principal amount of ARCs;

(iii) in the case of a Broker-Dealer that is a Seller's Broker-Dealer, instruct each Existing Owner on whose behalf such Broker-Dealer submitted a Sell Order that was accepted, in whole or in part, or a Bid that was accepted, in whole or in part, to instruct such Existing Owner's Participant to deliver to such Broker-Dealer (or its Participant) through the Securities Depository the principal amount of ARCs to be sold pursuant to such Bid or Sell Order against payment therefor;

(iv) advise each Existing Owner on whose behalf such Broker-Dealer submitted an Order and each Potential Owner on whose behalf such Broker-Dealer submitted a Bid of the Auction Rate for the next Interest Period;

(v) advise each Existing Owner on whose behalf such Broker-Dealer submitted an Order of the next Auction Date; and

(vi) advise each Potential Owner on whose behalf such Broker-Dealer submitted a Bid that was accepted, in whole or in part, of the next Auction Date.

(c) On the basis of the information provided to it pursuant to paragraph (a) above, each Broker-Dealer that submitted a Bid or Sell Order in an Auction is required to allocate any funds received by it pursuant to paragraph (b)(ii) above, and any ARCs received by it pursuant to paragraph (b)(iii) above, among the Potential Owners, if any, on whose behalf such Broker-Dealer submitted Bids, the Existing Owners, if any, on whose behalf such Broker-Dealer submitted Bids or Sell Orders in such Auction, and any Broker-Dealers identified to it by the Auction Agent following such Auction pursuant to paragraph (a)(v) or (a)(vi) above.

(d) On each Auction Date:

(i) each Potential Owner and Existing Owner with an Order in the Auction on such Auction Date shall instruct its Participant as provided in (b)(ii) or (b)(iii) above, as the case may be;

(ii) each Seller's Broker-Dealer that is not a Participant in the Securities Depository shall instruct its Participant to (A) pay through the Securities Depository to the Participant of the Existing Owner delivering ARCs to such Broker-Dealer following such Auction pursuant to (b)(iii) above the amount necessary, including accrued interest, if any, to purchase such ARCs against receipt of such ARCs, and (B) deliver such ARCs through the Securities Depository to a Buyer's Broker-Dealer (or its Participant) identified to such Seller's Broker-Dealer pursuant to (a)(v) above against payment therefor; and

(iii) each Buyer's Broker-Dealer that is not a Participant in the Securities Depository shall instruct its Participant to (A) pay through the Securities Depository to a Seller's Broker-Dealer (or its Participant) identified following such Auction pursuant to (a)(vi) above the amount necessary, including accrued interest, if any, to purchase the ARCs to be purchased pursuant to (b)(ii) above against receipt of such ARCs, and (B) deliver such ARCs through the Securities Depository to the Participant of the purchaser thereof against payment therefor.

(e) On the first Business Day of the Interest Period next succeeding each Auction Date:

(i) each Participant for a Bidder in the Auction on such Auction Date referred to in (d)(i) above shall instruct the Securities Depository to execute the transactions described under (b)(ii) or (b)(iii) above for such Auction, and the Securities Depository shall execute such transactions;

(ii) each Seller's Broker-Dealer or its Participant shall instruct the Securities Depository to execute the transactions described in (d)(ii) above for such Auction, and the Securities Depository shall execute such transactions; and

(iii) each Buyer's Broker-Dealer or its Participant shall instruct the Securities Depository to execute the transactions described in (d)(iii) above for such Auction, and the Securities Depository shall execute such transactions.

(f) If an Existing Owner selling ARCs in an Auction fails to deliver such ARCs (by authorized book-entry), a Broker-Dealer may deliver to the Potential Owner on behalf of which it submitted a Bid that was accepted a principal amount of ARCs that is less than the principal amount of ARCs that otherwise was to be purchased by such Potential Owner (but only in Authorized Denominations). In such event, the principal amount of ARCs to be so delivered shall be determined solely by such Broker-Dealer (but only in Authorized Denominations). Delivery of such lesser principal amount of ARCs shall constitute good delivery. Notwithstanding the foregoing terms of this paragraph (f), any delivery or nondelivery of ARCs which shall represent any departure from the results of an Auction, as determined by the Auction Agent, shall be of no effect unless and until the Auction Agent shall have been notified of such delivery or nondelivery in accordance with the provisions of the Auction Agent and the Broker-Dealer Agreement.

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